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Ideas on Liberty

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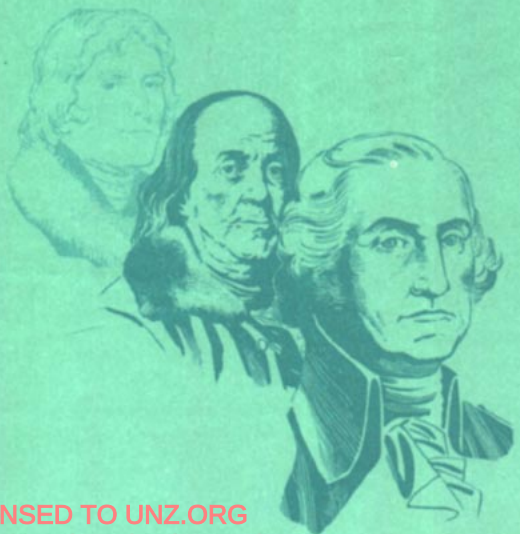

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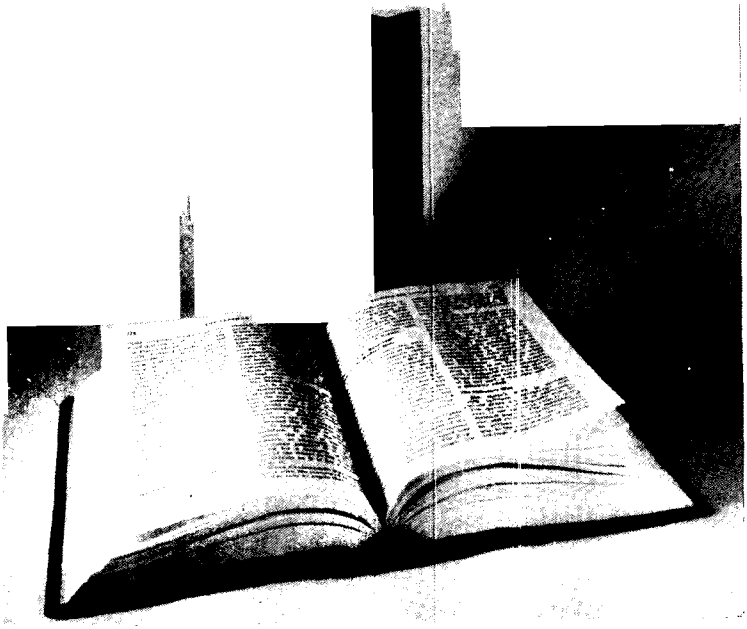

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A MONTHLY JOURNAL OF IDEAS ON LIBERTY

IRVINGTON-ON-HUDSON, N. Y. 10533 TEL: (914) 591-7230

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THE FREEMAN is published monthly by the Foundation for Economic Education, Inc., a nonpolitical, nonprofit, educational champion of private property, the free market, the profit and loss system, and limited government.

Any interested person may receive its publications for the asking. The costs of Foundation projects and services, including THE FREEMAN, are met through voluntary donations. Total expenses average $15.00 a year per person on the mailing list. Donations are invited in any amount as the means of maintaining and extending the Foundation's work.

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Educational Vouchers: The Double Tax

GARY NORTH

> All State education is a sort of dynamo machine for polarizing the popular mind; for turning and holding its lines of force in the direction supposed to be most effective for State purposes.
>
> Henry Adams
> *The Education of Henry Adams* (1907)

WE ARE CONTINUALLY BOMBARDED by newspaper and magazine headlines informing us of the continuing "crisis in education," which actually is a crisis in government-operated education. Virtually all the available data reveal that the crisis is accelerating. Inner-city schools have become literal battlefields between rival gangs, between teachers and students, between administrators and increasingly vociferous faculty unions, and most important, between outraged parents and the whole system. Yet the crisis is in no way confined to inner-city schools. The suburban schools of the white middle class are burdened with the multiple plagues of student boredom, drug addiction, and rapidly increasing alcoholism. A dozen years of falling scores on the college entrance examination reveal the steady nature of the erosion, despite the acceleration of costs associated with the public schools.

Educators cannot bring themselves to admit that the crisis is anything more than a temporary aberration—an aberration from the "normal" which itself was dead long before today's administrators were born. The theories multiply, the explanations proliferate, and the crisis gets worse. What the last decade has brought is an understanding on the part of the public and a minority of government school employees (untenured, generally) that there is no answer.

Like the sinking ship which finally takes on too much water, the

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government education system is irretrievable. It will be useful in the future only as scrap. But what about those millions of students who will go through the system before it finally sinks? Will they too become useful only as scrap?

Parents are becoming aware of the discussion syndrome. The endless discussions in half-empty halls between a few parents and local administrators have not altered anything. The teacher conferences, the administrator conferences, the PTA conferences, and all the other conferences have proved useful only for the cataloguing of the unsolved and increasingly unsolvable problems connected with government education. Solutions have not emerged from conferences – or at least no solutions acceptable to parents, administrators, school boards, students, state legislators, and an angry group of levy-rejecting voters. If there are no solutions, why pay higher taxes? This is the reasoning of the voters. The reasoning of the school administrators is different. They only want to discover a new source of tax money that will be acceptable to the voters, or better yet, that will not be subject to public elections at all.

The Root of the Crisis

The problems of American public education are the problems associated with any system of government-enforced, tax-supported coercive wealth redistribution: the system of financing conflicts with the expressly stated goals of the planning agencies. This conflict between the method of financing and the stated goals of education has been with us since the days of the Puritans of New England who set up compulsory education which was to be financed, in part, by money collected by the local property tax assessor.

There is no education apart from conformity of thought. One thing is true and another is not. Education requires indoctrination. But the conformity of thought which is basic to all education creates conflicts when parents of differing first principles are required either to finance a hostile educational system or to send their children to it. The Puritans' solution was to enforce conformity by expelling hostile families from the community. The modern bureaucrat's solution is to force parents to finance an alternative school system as well as the government system, and then to take control of the private system later on.

Sidney E. Mead, in his important book, *The Lively Experiment: The Shaping of Christianity in America* (1963), has argued perceptively that the public school system is America's only estab-

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lished church. His point is well taken. Like all systems of established worship, some people are forced to finance doctrines and principles that they do not agree with. They resent this fact, but instead of seeking for the separation of "church" and state, the modern parent only seeks to "recapture" the public education system. So deeply rooted is the idea of the necessity of public-financed education that those who are being destroyed by the system – who are losing their children to the system – cannot bring themselves to abandon it on principle. If the moral answer of the free man to the socialist's policies of coercive wealth redistribution is "not yours to give," then the moral answer to those who would somehow take over the public school system is "not yours to recapture."

The religious nature of the conflict has been noted by R. J. Rushdoony: "The state is [seen as] the order of liberty, and the school is the means whereby citizens are prepared for the good life. The state has become the saving institution, and the function of the school has been to proclaim a new gospel of salvation. Education in this era is a messianic and utopian movement, a facet of the Enlightenment hope of regenerating man in terms of the promises of science and that new social order to be achieved in the state."[1] Yet precisely because the new state religious establishment has become messianic, it has also become the center of men's criticism.

> Education today occupies an equivocal position in contemporary life, functioning both as a scapegoat for every failure and as a catch-all for every hope and expectation of society. The schools and colleges are berated for extending their authority beyond the fundamentals of learning into a program which envelopes the whole child or the whole man, and, at the same time, are given additional responsibilities which can only extend their scope even further. Fundamental to this unhappy and contradictory approach is a messianic expectation of education coupled with a messianic attitude on the part of educators. The attitude of people towards education is that it is a god that has failed and yet a god who can perhaps still be whipped into fulfilling his mission.[2]

The decade which has just passed – one which began only a few months after these words were published – has brought a massive disillusionment concerning education. Nevertheless, the public's faith in government-financed and administered educa-

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[1] Rousas J. Rushdoony, *The Messianic Character of American Education* (Nutley, New Jersey: Craig Press, 1963), p. 4.
[2] *Ibid.*, p. 6.

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tion still persists, at least to the extent that people think the system can still be reformed, transformed, or recaptured.

The pluralism of American life is now, and always has been, in direct opposition to a philosophy of public education. Yet the irreconcilable conflict between these two principles has never been faced by the vast bulk of our citizens and virtually any of its educational theorists. The financing of a pluralistic culture must be voluntary, springing from the deeply felt needs of the various religious, intellectual, and cultural groups.

Three centuries of conflict over the control, content, and financing of public education serve as a testimony to the futility of combining a system of tax-financed schools with a pluralistic culture financed by free men. The system of education is elitist, as all professional systems must be, but with taxation as its base, the system is in conflict with democratic principles. It leads to a system of minority rule. Weber was quite correct when he argued that bureaucracy is antidemocratic by nature; control is separated from those who bear the financial burdens.[3] Tenure and civil service protection assure that control and financing are kept separate.

[3] Max Weber, "Bureaucracy," *From Max Weber: Essays in Sociology*, edited by H. H. Gerth and C. Wright Mills (New York: Oxford University Press, 1946).

The Assumption of Neutrality

An implicit schizophrenia undermines every system of public education. On the one hand, a primary justification for the existence of government-financed education is that the nation needs citizens who are educated for the responsibilities of democratic participation in the political processes. The schools are to educate men in terms of the "ethics of democracy" or "democratic values" or just plain "patriotism." Schools must inculcate "values," although the more vague these are, the better for the administrators.

On the other hand, in order to ward off criticism from various religious and ideological groups, public education is simultaneously defended as a system which inculcates no religious or ideological values whatsoever. Public education is simply technical, making possible a better, more productive, and more profitable life for all of its students. *The stated goals of democratic education and strictly vocational or technical training are in absolute opposition to each other.* The first absolutely affirms the value-laden nature of public education, while the second absolutely denies it.

The schizophrenia of public edu-

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cation can be seen in the doctrine of academic freedom. The doctrine was first developed by the professors employed by the Prussian universities that were the products of state financing. (Prussia invented the kindergarten and the graduate seminar, two of the least productive educational developments on record.) The universities were supposed to be extensions of the Prussian state, and they were understood as such by everyone, but professors wanted to be exempted from any form of censorship or control by the agents of the state. Thus, they invented the idea of academic freedom – the freedom of inquiry belonging to any *certified* scholar in his area of expertise. He is to be entirely neutral, however; his instruction must be based only on facts. He must not indulge in propaganda.

Yet, steadily, as the implications of epistemology have been recognized, the idea that "facts" somehow create a neutral world of scholarship has been abandoned. The so-called sociology of knowledge (sociology of prejudice) indicates that men can investigate only a tiny fraction of the infinite number of facts, gleaning facts and assembling them in terms of a philosophical framework. Presuppositions therefore influence interpretations, and interpretations are now recognized as ultimately religious in nature, i.e., they are accepted as unchallengeable first principles. While few students recognized this fact as recently as the early 1960's, the effects of the Vietnam war and the counter culture have reversed this. The students, and many of their professors, now acknowledge what has always been true: education is not neutral. But if education cannot be neutral, then the public school system's legal pillar – the assumption of neutrality – is exposed as a false justification for the maintenance of an established church and a tenured priesthood.

The Locus of Sovereignty

The ultimate source of the educational crisis stems from an error in first principles. Once committed to this error, the public education system has floundered repeatedly. To locate the source of the error, men need only ask themselves a single question: Who is responsible for the education of a child? The answers, of course, are varied: the parents, the church, the civil government, or a combination of the three.

The conflicts in education are in fact conflicts over a much more fundamental issue: the locus of sovereignty, and hence, the locus of personal responsibility. The person or institution which pos-

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sesses sovereignty must be the one which takes on the responsibility. By affirming the legitimacy of tax-supported education, voters have attempted to transfer their responsibilities for the education of their children to another agency, the state. Yet at the same time, they affirm their own sovereignty over the content and structure of the educational system. That they have lost almost every battle in their war with tenured, state-supported educational bureaucrats, is the direct result of the public's abdication of personal responsibility, family by family, for the education of their children. The war was lost on the day that parents, as voters, decided to transfer the financial responsibilities of educating their own children to other members of the body politic. While Horace Mann can be regarded as the general who was victorious over private education in Massachusetts, he was only conducting mopping-up operations. The end had been determined two centuries earlier when the Puritans of Massachusetts affirmed the principle of tax-supported education.

Any system of education must ultimately be the reflection of and product of the philosophical principles of those who finance the system. The decision about the financing of any institution inescapably determines the shape and content of that institution. Modern men, being secular, now recognize this fact when applied to the institution of the church. They see that a state-supported church is antithetical to the principle of freedom of conscience. They see, and religious zealots like Roger Williams see, that state-financed churches become the tools of the state which supplies the funds. But modern men do not see that this strict relationship between financing and operations applies equally well to government school systems. Somehow, the relationship is ad hoc; it works when churches are involved, but it is irrelevant in the field of public education. Like the established churchmen of two centuries ago, today's priests and parishioners of the public schools refuse to recognize the nature of their relationship to the state.

Who Pays?

Do men finance their children's educations directly, through the personal financial sacrifice of the family unit? If so, then the family is sovereign over education. The school is then merely an extension of the family. The family makes use of the efficiencies associated with the division of labor. Parents hire professional educators to train their children, but those who are hired are paid to

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adapt their educational skills to the needs of the families that are financing the education. This can be done directly, through family-controlled school boards, but it can also be accomplished through the indirect means of the market. The family hires the tutor, or the school, in the same way that it hires any other servant. The parents are directly responsible for their children, and the selection of a school is an act of responsible stewardship. The family has not delegated the responsibility of educating the children to anyone else. It controls the purse strings—the ultimate affirmation of earthly sovereignty.

The more distant the source of the school's funds from the family, the less control the family has over the selection of the teachers and equipment. If the church finances the education of its members' children, then a layer of institutional bureaucracy is interposed between parents and teachers. This may be agreeable to many parents, but if church members other than the parents are expected to finance the school (as is the case in most instances), then they too have a legitimate right to determine school policies.

By transferring some of the burdens of financing education to other church members, the family thereby relinquishes a portion of its sovereignty over the educators. The educators then serve someone other than the parents, or at least in addition to the parents: the deacons, the elders, the minister, the school committee, or whatever. By diluting sovereignty, the educational bureaucrats gain more autonomy, since they can play off one church faction against another until everyone gives up and grants more autonomy to the administrators.

The bureaucrats gain their greatest control in tax-supported systems. Sovereignty is so diluted at the level of the individual citizen that the expertise of the professional and tenured bureaucrats is overwhelmingly powerful. But their power is not tied to a personal relationship with the children (as it is with a parent), nor is it linked to a financial dependence on the parents, nor is it even linked to a community of shared values, as in the case of a church school. Their power stems from the unwillingness of legislators to turn off the funds. And the legislators' unwillingness to interfere stems from two primary facts of political life: 1) the experts have an aura of invincibility about them, plus tenure; 2) the voters still believe in the establishment of the public school church. It is easier to give speeches than to take action, so legislators give

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speeches. Most of them are re-elected most of the time, so the policy pays off in the coin of the political realm: votes.

The crisis of education is therefore a crisis in the realm of values, with the values of the parents coming into conflict with the values, philosophies, and incompetence of those in control of the tax-supported educational system. If the parents continue to capitulate to the philosophy of public education, then they will continue to be defeated in their attempts to gain the kind of education they want for their children. There is only one way that all parents can gain such satisfaction: they must pay for the education of their children. They can earn the money or they can convince some third party to give them or their children the necessary funds on a voluntary basis, but the parents must pay. If they want to get what they pay for, they must pay directly, rather than paying through the coercive means of state taxation.

Until men are willing to cut off the political funding of the established church of America, they will see the educational crisis escalate. The visible sign of sovereignty is the ability to pay for a service and the willingness to do so. Nothing short of this will suffice to solve the crisis in the schools, for the educational crisis is ultimately a conflict over sovereignty. He who pays with his own funds will win; he who continues to pay by voting cannot possibly win.

Pseudo-market Schemes

Professor Milton Friedman of the University of Chicago is one of the most technically proficient economists in America. As a defender of the principle of market efficiency, he has been able to gain many adherents within the economics profession. He has been especially successful in challenging the inefficiencies of the Federal regulatory commissions. His most popular and widely read book, *Capitalism and Freedom* (1962), was a landmark of the 1960's, for it was popularly written by a professional economist who had long before established his technical proficiency before his peers. Some of the policy recommendations of the book, such as the abolition of occupational licensure by civil governments, have not been taken seriously by most economists and certainly not by professionals who now hold occupational licenses from the civil government. Yet from the point of view of those who are convinced of the technical superiority of the free market over governmental regulation, it is this kind of uncompromising stand taken by Prof. Friedman which is most val-

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uable in the defense of freedom, not to mention capitalism.

The problem that many free market advocates have with some of Prof. Friedman's policy recommendations is that too often he spends many pages in devising ingenious schemes that would make government programs more efficient and, Prof. Friedman fervently hopes, less burdensome to the taxpayers, businessmen, and innocent citizens of the land. These policy recommendations have one feature in common: they are pseudo-market devices. They would create a kind of shadow market – "almost a free market" – that could provide success indicators analogous to those provided by a truly free market. In doing so, he argues, these pseudo-market alterations would make government more responsive to the needs of citizens.

Economic Calculation

Back in 1920, Professor Ludwig von Mises wrote the most famous essay of his academic career, "Economic Calculation in a Socialist Commonwealth." Mises argued that the inescapable weakness of all systems of central planning is the inability of the planners to assess the actual value of any product or service in the economy. Without freely fluctuating prices that are the product of the private ownership of both consumer and capital goods, there can be no means of imputing value accurately by any of the participants in the economy. What should anything cost? What is it worth? What should be given up to attain any particular goal? Without market prices, meaning without open entry to markets by buyers and sellers, there can be only random guesses by the planning bodies. Randomness is not efficient, except on random occasions. Thus, concluded Mises, the socialist commonwealth is of necessity inefficient. It cannot plan rationally. So long as the monopoly character of the state-controlled markets continues, the planning authorities will remain blind to the true conditions of supply and demand.[4]

Understandably, Mises had no use for pseudo-market schemes of any kind. In fact, the most important (though ineffectual) reply to Mises from the socialist camp was made by Oskar Lange, and it consisted of a system of hypothetical pseudo-market responses by central planners: artificial and arbitrary prices to be set by the planners, followed by adjustments in the price system in order for planning agencies to stimulate the desired response from buyers and

[4] Ludwig von Mises, "Economic Calculation in a Socialist Commonwealth," (1920), in F. A. Hayek (ed.), *Collectivist Economic Planning* (London: Routledge & Kegan Paul, 1935).

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producers.[5] The problem, as always, was the closed nature of the system. The planners could never be sure that they were not wasting resources in their attempt to attain any goal. Those who set prices are sovereign, and in the case of the socialist commonwealth, the sovereign is economically blind.

In short, the creation of a pseudo-market cannot guarantee increased government efficiency or increased economic power on the part of consumers. All that will be accomplished is the irrationalization of the central economic plan by mixing it with non-socialist yet non-market elements. Lange's scheme was never adopted by the Polish planning agency he belonged to, nor have the Soviets adopted it. It is neither socialist nor market; it is only economically irrational.

The Voucher Scheme

Perhaps the most interesting of all of the pseudo-market policy recommendations promoted by Prof. Friedman is his educational voucher plan. Under such a school financing system, each family would receive one voucher for each school age child in the family. The voucher would be redeemable in money upon presentation by a private school to the state or country government. Its value would be equal to the average per student cost of education in the district. (This figure, by the way, is seldom even calculated by school boards, for obvious political and public relations reasons, and when it is calculated, it virtually never includes such crucial items as the interest which the government might have earned had it sold off the school buildings and invested the money elsewhere, such as in the bank which would loan the purchase money to a local profit-making school.) The parents could then send their students to a public school or to a private school. If the cost of tuition were higher in the private school than the value of the voucher, the parents could make up the difference by paying more money.

The advantages of this scheme, argue the supporters of school vouchers, would be considerable. The parents gain back their lost sovereignty. They decide where the children will attend school. The public schools would be forced to compete for students, thereby increasing their efficiency. Private

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5 Oskar Lange and Fred M. Taylor, *On the Economic Theory of Socialism* (New York: McGraw-Hill, [1938] 1956). For a reply, see T. J. B. Hoff, *Economic Calculation in the Socialist Society* (London: Hodge, 1949).

Prof. Hayek's latest statement on the question of central economic planning appeared in *The Morgan Guaranty Survey* (Jan. 1976), and is available on request: 23 Wall St., New York, N.Y. 10015.

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schools would spring up everywhere in response to the existence of vouchers. The diversity of educational opportunities would be fostered. The costs of administration would be very low. (One advocate back in 1962 – a respected libertarian philosopher – announced that it would only take a computer and four secretaries to run the whole system for the state of California. If this were true – and it certainly is not true – it would insure the doom of the program in the eyes of the most potent group of special-interest pleaders in the state, the civil service employees.) The state could establish specialty schools of all kinds to lure back parents and their vouchers. The authority of parents would be re-established, and this would guarantee a truly progressive educational system.

There is no doubt that the logic of the voucher program is initially impressive. Parents would seem to have far more power in selecting educational alternatives under the voucher system. The below-market pricing monopoly of the state would be eliminated. The conformity of bureaucratic education would be challenged by a new diversity. A new educational pluralism would be the creation of vouchers. It would save money and increase freedom. What more could we ask for? In any case, what more can we expect in an age of wealth redistribution? This is always the key argument in favor of the creation of pseudo-market schemes: no way exists to re-establish a truly free market, so this is the best we can hope for.

The Locus of Sovereignty Revisited

It all sounds so plausible. Yet it overlooks the fundamental problem of voucher-financed education. The question must still be asked: Where is the locus of sovereignty? And the answer must still be the same: the civil government. The voucher program violates the most important principle of education: parents are responsible for the financing of their children's education. He who is responsible is also legally sovereign, and vice versa. Operationally, the source of the funding determines the locus of sovereignty. The goal of all those who would defend market arrangements must be to determine the *moral* locus of sovereignty in any particular circumstance, and then see to it that the sovereign agent be made legally and economically responsible for the exercise of his power. By failing to demand that parents be the source of funding for their own children's education, the promoters of the voucher scheme have abdicated their responsibility in extending the principle of voluntar-

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ism and its concomitant, personal responsibility.

In the voucher system, the source of the funding is still the taxation system. The financing is based on the principle that it is legitimate to use political power in order to grant benefits to one group at the expense of the other. The principle of coercion is still dominant. The dominant principle, over time, will thwart the elements of voluntarism in any pseudo-market scheme. The state is still the operational sovereign over education, simply because the threat of violence, which is the state's legal monopoly, is the source of the funds for education.

There is no doubt that Prof. Friedman recognizes this fact, yet he does not emphasize it. He believes that the technical alteration of the way in which coercively collected taxes are redistributed can overcome the sovereignty of the state. He acknowledges that the authority of the parents in a voucher scheme cannot be absolute. The state-financed "educational diversity" under a voucher system is a diversity operating within government-established guidelines. Money spent by the state can never be on a "no strings attached" basis. There is always more demand for government money than there is money available to meet the demand (unless the purchasing power of government money falls to zero). Those legally responsible for the distribution of tax money must have legal guidelines, or else rampant waste and dishonesty will instantly appear, and the treasury will be emptied overnight.[6] This is why statist education must be bureaucratic education, with guidelines imposed from above, since the money comes from the state. There is no escape from the rules of bureaucracy in a voucher system. Friedman acknowledges this fact:

> Governments could require a minimum level of schooling financed by giving parents vouchers redeemable for a specified maximum sum per child per year if spent on "approved" educational services. Parents would then be free to spend this sum and any additional sum they themselves provided on purchasing educational services from an "approved" institution of their own choice.[7]

The key word, of course, is "approved." Why Prof. Friedman has chosen to put the word in quotes is not altogether clear. Does he mean "kind of approved"? Certainly, he is wise enough to know that when the state bureaucrats

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[6] Mises, *Bureaucracy* (New Rochelle, New York: Arlington House, [1944] 1969).

[7] Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962), p. 89.

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approve or disapprove, they do not hide their actions in quotation marks. They simply decide. They decide in terms of criteria appropriate to the continued functioning of the statist educational bureaucracy. As Prof. Friedman writes: "Any subsidy should be granted to individuals to be spent at institutions of their own choosing, provided only that the schooling is of a kind that it is desired to subsidize."[8] *Desired by whom* to subsidize? The parents? Hardly; they are the ones to be dictated to, not dictated by. The parents will be told where they can freely spend their vouchers, and they have to that degree lost their sovereignty. The state provides the funds through its monopoly of coercion; the state shall determine, coercively, how and where those funds are to be spent.

Controlling the Alternatives

What the decades-long erosion of the government school systems has provided is a long list of reasons why it would be profitable for each family to remove its children from the subsidized schools. A small but growing minority of parents is doing just that. The state bureaucrats are legally prohibited from providing religious schools, ideologically prohibited from providing free market education, and apparently unable to provide competent instruction. They see their task as insuring standards, which means insuring educational conformity. The rise of an independent school system, which is replacing the declining number of Roman Catholic parochial schools, is a threat to public school administrators. They are as hostile to alternative educational programs as the postal system's administrators are to United Parcel Service or anyone else carrying first-class mail.

Private school administrators in Indiana were recently imprisoned temporarily for having cooperated with parents who attempted to remove their son from the public school system against his will. Parents in Ohio have been threatened with the removal of their children to foster homes if they persist in sending their children to unaccredited schools. This is warfare, not some simple debate over financing. Technical solutions are insufficient to solve problems of ideological and religious warfare.

What we are witnessing is a conflict over sovereignty. Who is responsible for the training of children, the state or the parents? The lines are being drawn far more sharply today than at any time in this nation's history. Pseudo-market schemes cannot solve

[8] *Ibid.*, p. 99.

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questions of ultimate sovereignty, or at least they cannot solve them for the benefit of free market institutions.

State schools rest on a whole series of erroneous assumptions. First, that the state is ultimately sovereign in the field of education — the pseudo-parent of every child. Second, that state schools can teach children totally neutral values — universally acceptable principles that all education must provide. Third, that it is the moral as well as legal obligation of taxpayers to finance the school system. Fourth, that the professional, tenured, and civil-service-protected officials of the educational monopoly are the people best prepared to operate the educational system.

Buying Off the Competition

The voucher system challenges directly only the last of these assumptions, and then only superficially. (After all, state schools will still be permitted to operate.) The voucher system necessarily requires the *licensing of schools.* For those who favor bureaucratic licensing of alternative educational systems by the state bureaucrats whose jobs are threatened by alternative educational systems, I can only recommend chapter 9 of Prof. Friedman's *Capitalism and Freedom* — the chapter on occupational licensing.

As private schools continue to replace the disintegrating government schools at the primary and secondary levels, the state's educational bureaucrats will have to take decisive action to protect their monopoly. One way to accomplish this is to refuse to certify any more schools. (I am assuming that outright abolition will not be tolerated politically or in the courts.) This approach may work for a time, since parents are concerned about quality schools. By some peculiar twist of logic, the parents of private school children somehow believe that the state licensing boards are competent to certify educational performance, despite the fact that the schools that they themselves operate are anathema to the parents in question.

Private school administrators, who come to parents in the name of a superior educational program, are equally hypnotized by the boards of certification. The most intelligent response is that made by Robert Thoburn, principal and owner of the profit-making and highly successful Fairfax Christian School of Fairfax, Virginia: "If the bureaucrats want me to certify their schools, they can come to me and I'll look over their programs. That's my view of certification."

If the certification ploy does not

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work, then the last hope of state educational bureaucrats is the voucher system. If parents continue to send their children to uncertified schools, then the state must find a way to convince private school administrators that they must register with the state and conform their programs to state educational standards. The voucher system is the most logical means of achieving this goal. Vouchers will create a second, pseudo-free market school system, using "free" in both senses: independent and without cost to the users. The state-operated schools will then compete with the state-licensed schools. Almost no third alternative will be economically possible.

Taxed Again and Again

Those parents who want their children out of the government-operated schools (which their taxes support) will also be paying for the operation of voucher-supported, state-licensed schools. These parents must turn down the first subsidy (free public education in a government school), turn down a second subsidy (vouchers for government-licensed schools), and come up with after-tax income to finance their children's education in a truly independent school.

This is assuming they can find such a school. To do so, they must locate other parents equally committed religiously and ideologically to the principle of independent education, and also financially able to put their preference into action. How many concerned parents will do this? How many private school administrators will be able to operate a school while denying admittance to those who would pay with vouchers? How many of these schools with total commitment to private education will there be? I can tell you: very, very few.

Not until the blight so obvious in the government-operated schools has spread to the government-licensed voucher schools will parents even consider bearing the second tax (vouchers) and find money to pay for an independent education. In short: *vouchers are the most promising tool for the suppression of independent private education now at the disposal of state educational bureaucrats.*

What will the price be? What may not have been clear to Prof. Friedman back in the early 1960's is clear to us now. We will have HEW guidelines operating in every voucher-using school – equal opportunity policies, quota systems of every kind, teacher hiring and firing policies, racially and religiously mixed student bodies. There will be a whole army of Federal bureaucrats, not to men-

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tion state bureaucrats, policing every private school. The so-called private educational system will be swallowed up in a mountain of red tape. How much imagination does it take to see what is coming? Isn't it sufficient to look at what our independent private colleges are now going through? Can you imagine the kinds of controls in store for schools that are set up to permit an escape hatch for the crumbling state educational monopoly – the most horrendous visible failure of socialism in America?

The statist educators and politicians of Great Britain are calling for the abolition of all independent schools in Britain, not because they think the government schools will be improved, but because it is intolerable in a society guided by the politics of envy to let any class, any family, any religious group escape the blight of the socialist educational system. If the sons and daughters of the laboring class must suffer the terrors of the government school system, why should the sons and daughters of the rich be permitted to escape? The logic is impeccable. After the Civil War we abolished the right of men to buy their way out of conscription by paying the government a fine sufficient to enlist another man. This practice was thought to be undemocratic. The same will be true, I fear, for those who would escape conscription into the public school system.

Conclusion

The state is not about to adopt pseudo-market schemes unless the bureaucrats believe that the adoption of the scheme will remove competition from consistently independent private competitors. The state is not going to consider the latest pseudo-market proposal to come out of the graduate seminars of the pro-free market professors unless the scheme can be rewritten to enhance the sovereignty, power, and efficiency of those who would suppress the independence of private men. This should be the lesson of the age: statist ideologues and their tenured hirelings do not commit suicide voluntarily. They do not abandon the ideology of the control economy simply because some new scheme promises to make the government benign or reduce the tax burden of the public.

Pseudo-market schemes, promoted in the name of the free market, are adopted by the enemies of freedom for very specific purposes: to reduce the zones of freedom. Those who believe in increasing all state sovereignty will adopt pseudo-market schemes only when they are convinced that the free market is too great a threat

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to pure, uncompromising bureaucratic failure – the same reason why the Soviets allow semi-market pricing in a few restricted areas of the economy.

The state may adopt vouchers for education on an experimental basis, in order to test the scheme. If it does foster independent education, vouchers will be scrapped. But they will not have to be scrapped. Vouchers may well become a permanent fixture of our government education system. If so, it will be for a reason: the school voucher offers vast new powers of control over a vibrant and growing independent school system that threatens to undercut government schools.

The great threat to freedom from school vouchers is that they strike at the heart of society: the family. As a pseudo-market device, they promise to be remarkably successful in destroying a tiny but important pure free market development. I am reminded of Lenin's dictum that if the communists announced that all capitalists were to be hanged tomorrow, the capitalists would trip over each other today trying to sell Lenin the rope. The profit system does not regard the origins of profits, at least short-run profits. Men act to improve their positions in life. Private school administrators and most of the private colleges have been eager to receive Federal aid; only a minority of a minority have held out against the lure of Federal money. (Their schools, it should be remembered, are very small and may grow smaller.) The lure of vouchers almost certainly will prove too great a temptation for thousands of our struggling little private schools. It may take another generation to recover from the defection of these schools, should that defection have an opportunity to manifest itself.

If vouchers are to be stopped, they will have to be stopped by parents who recognize the double taxation nature of the voucher scheme. Those who truly want independent schools and are willing to pay for them must not seek after vouchers, for vouchers are the very seal of doom for the independent school system. Pseudo-market schemes generally lead to anti-market results. The opposition to vouchers must be made on principle and in opposition to the superficial logic of the pseudo-market. He who is morally responsible must pay. Abandon this principle, and you abandon your sovereignty as a free man. Good results stem from good principles. Vouchers are an intellectual, moral, and educational disaster. They will not work to expand the realm of freedom.

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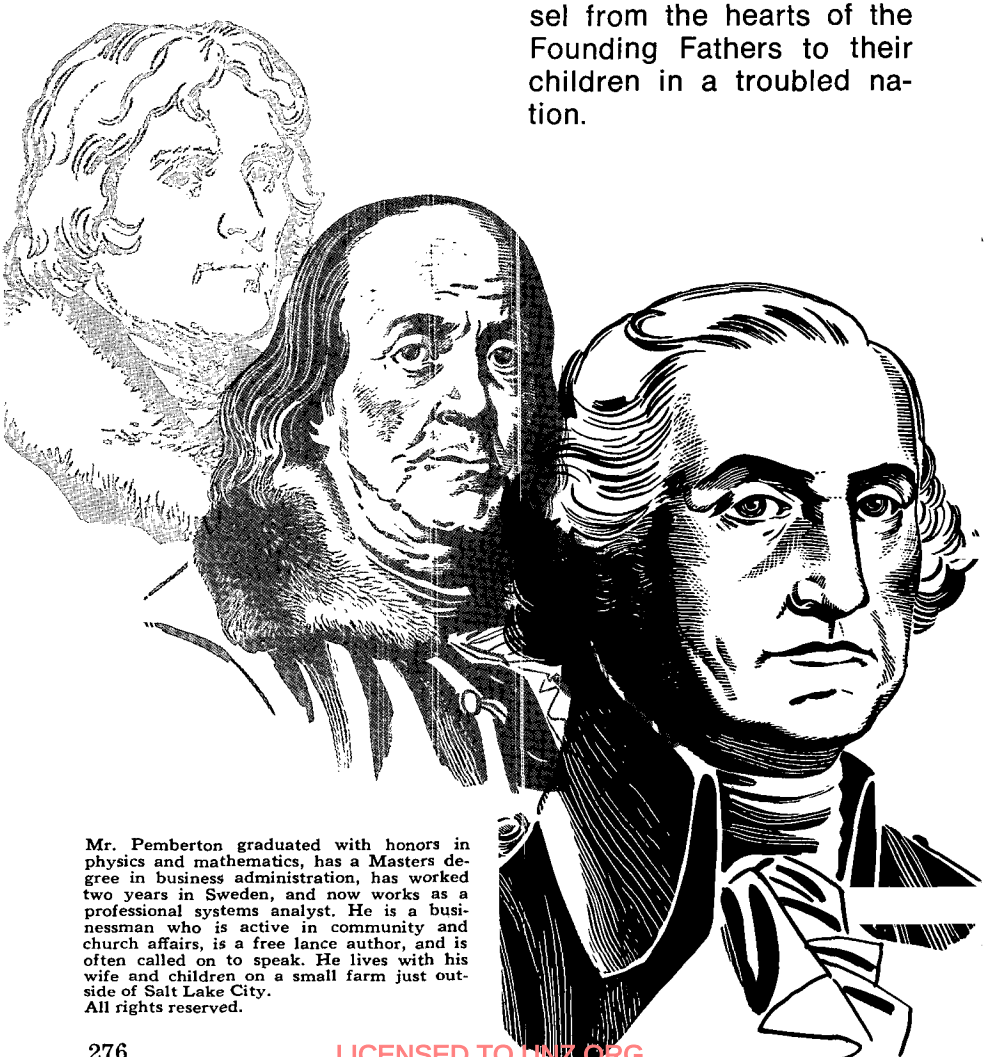
A NEW MESSAGE

JACKSON PEMBERTON

Words of courage and counsel from the hearts of the Founding Fathers to their children in a troubled nation.



Mr. Pemberton graduated with honors in physics and mathematics, has a Masters degree in business administration, has worked two years in Sweden, and now works as a professional systems analyst. He is a businessman who is active in community and church affairs, is a free lance author, and is often called on to speak. He lives with his wife and children on a small farm just outside of Salt Lake City.
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I. On Choosing Liberty

Some historians have suggested that our nation is following a typical cycle of formation, growth, influence, and decline. What we are seeing in our national crises then, is probably no more or less than the result of normal wear and tear, the natural consequence of life and time. But there arises here a largely ignored yet terribly significant question of causes. Changes have been made to the Constitution with the motivation to alleviate problems. So much is clear. But have those changes created more troubles than they may have assuaged?

As the machinery of government begins to break down, we hear that it is time to make further modifications or even to replace it. That could seem reasonable were we not considering one of the most amazing political machines in history. It would be the height of folly to inconsiderately tamper with or lay aside the instrument of such extraordinary human progress. Prudence suggests, rather, that we seek counsel from the sources.

Although those men who framed our freedom are no more among us, there exists an extensive collection of their thoughts. It is the intent in this series of articles to draw upon those sources to show us a view of our political day as it would appear to the Founders.

Listen, one is speaking . . .

I HAVE often been filled with regret that I and my fellows did not somehow make our position more clear, although I confess that I have been unable to discover anything we might have done to make the true nature of our revolution plainer to you. We had no desire for revolution, and even less for an armed one. It was, simply stated, that King George offered us two very unhappy alternatives.

It was our desire, and we spared no effort to manifest it, that we remain under the flag of England. We attempted every legal device to obtain relief from the arbitrary and abusive policies of the Crown, and at length resorted to some illegal ones too, before it became clear that we would receive no relief. We sought only to enjoy the natural rights of English subjects, but the oppression of the King and Parliament forced us finally to raise our own flag and defend our liberty.

Some of your papers are as ir-

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responsible in your day as some of ours were in our time, for you have been told, and by those who should have known better, that we were a "bunch of radicals, rebels, and extremists defying our establishment." There is but the smallest shred of truth in that, for they neglect to remind you that we had enjoyed self-government with little interference from England for a century and a half (almost as long prior to my time as you are after it) before we were pressed to the wall and obliged to choose between tyranny and liberty. We wanted only to maintain that self-government, not revolt against it, to re-establish our rights, not to throw off a government just to prove some dubious principle. There was among us very little of that haughty defiance that marks your rebels. There was only a sad determination that we would have to exchange lives for liberty, and the joy of knowing that we had made the choice for which we would be proud whether we won or lost the approaching struggle.

You see, King George was the radical who set about to create havoc in our midst, but we refused to submit. Radicals and extremists indeed! Here, here! You malign us! We decided against our will (but according to our best judgment) to make a stand and regain our rights. Then we set our hand to the task of forming a government wherein it should have been very difficult for our condition to have been repeated.

But alas, our fears for the welfare of liberty in this nation were more founded in fact than we had ever wanted to admit, for your condition now is much too similar to ours then.

We gave you a republic of states with sovereign powers in the necessary functions of government and certain defined and limited powers granted to a small but effective federal government. But now that government is drawing authority and influence to itself at an alarming rate, and threatens, if allowed to continue unchecked, to even overshadow England's former abuse of the colonies. But there is a cause to all this.

The King used his prerogative to pamper and flatter his vanity by plundering our wealth and heaping unto himself the products of our labor. Some of your public servants, particularly in the last several decades, have rediscovered that ancient craft. Do you not see that they defraud you of your riches and gratify their own conceits? They abuse the necessary power of taxation to take your wealth, then use it upon you to plan and regulate your economic, social, educational, and even your

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moral and religious life. These high-minded politicians fancy themselves wiser than you. They would transform our republic into an aristocracy!

For our ruler, it was the most presumptuous vanity to think that because he was King he was judge and lawgiver, that his will had the weight of natural law. Your rulers today suffer under a similar but more subtle delusion. They have put their noses to the books (with all their high-flown and complicated ways of describing the simplest things) and studied law, science, economics, sociology, statistics, and the science of politics, yet they, with all that learning, have more than anything else learned the conceit to fancy themselves better prepared than you to govern your life.

And what is the source of all their learning? They have not properly studied the rise and fall of nations, but prefer to teach one another their favorite new theories of governments and so-called social orders. New indeed! Those theories are old as the Theodosian Code of ancient Rome! We considered them unfit and with one mind rejected them. They are all aged forms of oppression and pillage of the people by the aristocracy. Beware of them!

They have not comprehended the most fundamental of truths; that the essence of the republic we gave you (which they persist to call a democracy, a government we carefully shunned) was, that only the people have the right to govern the people; that whatsoever is more or less than this is either oppression on the one hand or anarchy on the other. They have lost faith in the ability of the people to choose what is best for themselves. But what is more, they do not perceive that even if the people fail to choose the best, it is nonetheless far to be desired to be free and be wrong than to be a slave and be perfect.

Now stand back here with me, if you will, and view our nation as I see it. When the Constitution was first applied, a sense of order, unity, confidence, and peace came upon the land that far surpassed our most eager expectations. It was sublime beyond our ability to describe. The new nation rose powerfully and majestically; the eyes of the world were upon it. In a few decades that laughing stock of governments became the most compelling political mecca. It was the hand of Divine Providence made manifest to the great blessing of the society of mankind.

Now observe how, as the fundamental principles of the Constitution were tampered with (by amendment and by what I must

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call judicial usurpation), the workings of that carefully balanced engine of state began to falter. That faltering seemed to demand yet more change. And more rapidly and frequently the changes have come, and always they have brought you more troubles and only made matters worse. Can you see how, through the years your despair has grown in ratio with your alterations and violations of the Constitution? It is quite obvious from where I stand. Though I desire it not, I am compelled to chide you for this. We were careful to warn you, yet you heeded not. But I tell you, your shortsighted cures have caused your disease!

Your learned men tell you more reforms are desperately needed now, and well they might, for in that they are correct. However, when you inquire of your politicians as to where the source of your problems lies, they answer only what they themselves are wont to believe: "times have changed; things are different now; the world is smaller; things are a lot more complicated now" (they have seen to that!), and on and on. Ridiculous! A poor sham! But you must recognize that their alternatives are few, for they know that it is either that times have changed or that their wisdom is foolishness.

Of course times have changed, but that is hardly relevant to the question. I will show you why.

First, the Constitution was not based upon any particular economic or social order (as some have claimed); we assiduously avoided that, for, you will recall, we had only recently fought a bloody and discouraging war to secure our liberties, and we earnestly desired that you, our children, should be spared such a necessity whatever your social or economic system might become. Nay, 'twas not that at all. The Constitution was built upon a painful recognition of the folly and mischievous nature of man: hence the checks and balances.

Second, we recognized that there are only two legitimate sources of the power to govern: the Creator and the people. Whenever men have acknowledged any other power, they have submitted themselves to one form or another of tyranny. It is really quite that simple.

Now you, my sons and my daughters, you stand in a middle ground having on the one hand the protections of the Constitution and the ability still to use it to re-establish government by the people, and on the other hand you have drifted at an ever-quickening pace back toward the oppression

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that we managed to throw off. You must awake and gather your strength. You have so long enjoyed the peace and prosperity of your freedom that you have gone to sleep.

Up now, and clear your heads! The die is cast for you too. Your government is nearly out of your control. You too must submit or triumph. Thank God you will not be required to pay the price we paid if you will be about the business of your government and not leave it to your over-eager learned men. If you will move carefully, intelligently, and without undue delay, you may effect the salvation of what is still far and away the most legitimate government on the planet.

Be aware however, that your danger is more than considerable. If your government should gain the upper hand in your day with all its instantaneous communications, statistical projections, psychological drugs, and computers with unfailing memories, it could put to naught the combined tyrannies of the centuries for control, not only of your property and the products of your labor, but of your very deeds and even your thoughts. You must make your drive for freedom, lest by default you allow the prevailing forces to propel you back down and return you Sons of Liberty to the dungeon from which we so recently redeemed you by the sacrifice of our fortunes and our lives.

I will give you the counsel Moses gave our forefathers wherein he exhorted them to elect wise men of understanding whom they knew to be true. Seek out men of that nature!

There are men among you with that requisite wisdom and integrity to lead you back to the full freedom whence you have come; but of even greater significance, these men, when you find them, will lack the presumption to seek to be your protector and savior and to have the glory and honor of caring for your every need. These men will desire only to be free men, and to allow all men the opportunity to lift themselves (with the help of Divine Providence only) by their own diligence, even though that opportunity must also give them the equal chance to falter and fail. Yes, there is the substance of your choice and the essence of your challenge. And in that connection I will remind you that we gave you for the symbol of our nation, not a well-tended goose in a cage, but an eagle: free, unfettered, independent, and close to God.

Next: II. On Human Rights and Government

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HANS F. SENNHOLZ

Capital Consumption

GOVERNMENT SPENDING seems to be an all-purpose remedy for economic and social ills, the key to important political ends. The world of scarcity with which man always has struggled is finally giving way to a fabulous world of fulfillment and plenty.

In the world of reality, every economic good must be produced by man and his capital in cooperation with nature. In order to consume more, man must produce more unless he is prepared to eat into the capital substance that is helping to produce the goods. Capital refers to the monetary net amount of all the productive assets of an enterprise, which may consist of anything from cash to receivables, inventory, tools and equipment, or even land and buildings.

The amount of capital invested per head of the population basically determines the productivity of our labor, wage rates, and standards of living. We speak of a progressing economy when the per capita amount is increasing, which causes income to rise through an expansion of production. And we speak of a contracting economy when the amount of capital per person is shrinking, which reduces incomes and standards of living.

Every day we either accumulate capital through saving or reduce it through overconsumption. Businessmen either form capital through reinvestments of their earnings or dissipate it through losses or overconsumption. Every day total productive capital in the

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U.S. either expands or contracts, which causes labor productivity to rise or fall, and incomes and living standards to move accordingly.

The growing popularity of many government programs rests on the inability of the public to understand the nature and importance of capital. The redistributive policies of the U.S. government have consumed productive capital on a massive scale. At first, these policies merely slowed down capital accumulation and improvement in the rates of production. But with the acceleration of government spending in recent years, it appears now that *the U.S. has embarked upon net consumption of capital* that was accumulated in the past. If this conclusion is correct, our redistributive policies have arrested further economic progress and now are reducing our wage rates and standards of living. Neither law nor regulation can prevent pernicious poverty if we choose to consume our capital substance.

We are today heirs and beneficiaries of the capital that was formed by our forebears. We are better off than earlier generations of Americans because we are working with capital goods that they created and accumulated for us. But if, for any reason, our generation chooses to consume more than we produce, we must prepare for reduced living conditions and all the social and political consequences thereof. And our children must learn to face further poverty and deprivation.

The Taxing of Progress

With the growing popularity of redistribution by political force, all levels of government have embarked upon specific policies of capital consumption. Their favorite tool at first was taxation of the income and wealth of rich capitalists and entrepreneurs.

From a modest beginning in 1913, the Federal income tax rose steadily from one per cent of personal incomes above $3,000, or $4,000 for married couples, plus surtaxes of 6 per cent on incomes of $500,000 or more, to a maximum personal income tax rate of 94 per cent in 1944. Corporate income taxes soared to 90 per cent of "excess profits." Simultaneously the Federal tax rates on larger estates rose to 77 per cent, on top of which the states may claim their shares. It is true that in recent years individual and corporate income tax rates have come down a little; but a variety of other taxes, from social security to state and local taxes, have taken even larger shares.

No matter what the motivation, this confiscation of the income and wealth of millionaires must have

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certain economic and social consequences. Corporate income may be distributed as dividends to owners or reinvested in business activity, that is, in capital goods that continue to render productive services. Expanding enterprises tend to reinvest most of their earnings in the business. Now, confiscatory taxation surely reduces the amount of revenue that can be reinvested in productive assets. And it curtails the dividends paid to stockholders and thereby reduces the savings that are reinvested.

Progressive income taxation has the same effects. Most successful businessmen with large incomes make large investments, that is, they convert income to productive capital which renders additional services. Confiscatory taxation obviously curtails this creation of capital and thus prevents production of goods and income. Labor productivity and living standards are debilitated as the taxing authorities consume this income.

Inheritance taxation to a large extent is an outright confiscation of productive capital. The wealth of a multimillionaire mainly consists of business assets that are producing goods for millions of customers and giving employment to thousands of workers. What the wealthy person holds to consume, such as his housing and clothing, usually constitutes a tiny fraction of his total wealth. Confiscatory estate taxation is bound to fall preponderantly on his productive assets, which means that the taxing authorities directly consume productive capital, and thus limit living standards and employment.

And finally, the taxpayers are influenced by the fear of such tax rates. Instead of making more productive investments – the profits of which are destined to be seized, or worse yet, the substance of which will some day be claimed by estate tax collectors – the individual may prefer to consume and enjoy the wealth himself. Why strive and struggle if the fruits will be reaped by tax collectors? Why preserve his capital for the benefit of politicians and their beneficiaries?

Deficit Spending

When the public demand for government services and benefits grows beyond the ability of business and wealthy taxpayers to pay, budgetary deficits become unavoidable. After all, the popularity of redistribution by political force tends to grow with every dollar of "free" service rendered. The clamor finally becomes so intense that, in order to be heard, every new call is presented as an "emergency" that must be met immediately before all others. Redistribu-

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tive government then rushes from one emergency to another trying to meet the most noisy and politically potent demands. As no one wants to pay for the new expenditures, least of all the beneficiaries, the transfer administration is bound to suffer budgetary deficits.

When a corporation suffers losses for long periods of time, it inevitably comes to the end of its capital substance and ceases to operate. Any remaining assets will be distributed to its creditors. While government deficits may not throw the government into bankruptcy, they nevertheless have economic consequences. They destroy productive capital. Indeed, the deficits of the U.S. government have consumed, and continue to consume, capital substance on a scale far greater than all losing enterprises combined. In the decade of the 1950's total U.S. government deficits amounted to a mere $17.7 billion. During the 1960's the total was $56.9 billion. Deficits during the first half of the 1970's soared to $71.4 billion, and, as if they were following an exponential curve, in fiscal 1976 alone are expected to exceed $74 billion.

It is difficult to estimate the number of factories and stores that were not built, the tools and dies that were not cast, the jobs not created, the wages not paid, the food, clothing and shelter not produced on account of this massive consumption of capital. This generation of Americans and countless others to come will be poorer by the productive capacity that could have been, but was not created.

Of course, the beneficiaries of the redistribution process may have enjoyed every moment of it. Among men lacking vision, today's enjoyment is always more pleasurable than saving for tomorrow. They may applaud the very favors and handouts that are destroying their jobs and the wages they could have earned, and costly emergency programs may be hailed as progress though they yield the opposite. The bank or insurance company that is investing the people's savings in Treasury bonds, notes, or bills may be enjoying "safety" for its investments. What is significant is the fact that it is channelling potentially productive savings into the maelstrom of government consumption. The returns it seeks from its investments will not come from new production but from taxes to be collected in the future.

In dim awareness of the importance of capital, some social spenders are quick to maintain that government spending is mere-

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ly another form of investing. Therefore, they want government to "invest" in a greater society that is to be built by political force and redistribution of property. Their judgment of what is most urgent and important is to prevail over that of all others.

All such planners are would-be dictators. No matter what the objective, government expenditures always constitute economic costs that are borne by taxpayers, lenders, or inflation victims. Even when the government builds roads or canals, utility plants or airports, the expenditures invariably flunk the tests of the market. Demanded by voters, authorized by politicians, and administered by bureaucrats, public works constitute huge malinvestments that waste scarce resources and consume productive capital.

Inflation Destroys Capital

When the redistributive society has exhausted its favorite victims — wealthy taxpayers and lenders — it can be expected to resort to inflation as a desperate method of fund-raising. The inflation then taps the savings of the middle class whose material wealth mainly consists of monetary assets and claims. It destroys the capital markets that provide the necessary savings for the expansion and modernization of productive enterprises. And above all, it causes businessmen to overestimate their earnings, overpay their taxes, and consume their fictitious profits.

When the purchasing power of money depreciates, all claims depreciate at the inflation rate. Creditors lose and debtors gain. Now the creditors — for instance, physicians, dentists, attorneys, business executives, and all others holding savings bonds, life insurance, pension funds, and the like — may, in spite of their inflation losses, endeavor to maintain the levels of consumption to which they have grown accustomed. The physician whose Keough fund has lost half or more of its purchasing power, will not sell his home or automobile or postpone his vacation because of his inflation losses. On the contrary, in reaction to his losses, he may save less and consume more because of the apparent "futility" of saving. Or, he may want to hedge against further losses by investing in durable goods, which do not enhance the capital supply.

On the other hand, the debtors who are gaining from the debt depreciation may immediately raise their consumption. The government whose real debt, let us say, is cut in half will surely increase its spending. In fact, it may be tempted to add more debt

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until its old level of real debt is restored. Most individuals tend to react the same way. The house owner whose mortgage debt has diminished to insignificant monthly payments may buy new furniture or appliances. His consumption rises as his debt decreases.

Corporate Losses

Corporations, which as a class are the largest debtor, lose most of their inflation gains to tax collectors, labor unions, and their customers, all of whom are eager to boost their consumption. As prices rise taxes rise at progressive rates. When corporate income doubles on account of the inflation, the multiplicity of corporate taxes will surely more than double. Labor unions will make massive demands that are to compensate them for past losses and anticipated losses during the life of the contract.

And finally, customers may reap inflation gains as corporations tend to pass their gains from debt depreciation on to their customers. After all, when a bank loan falls in value or a corporate bond loses in purchasing power, a corporation usually does not raise the prices it charges its customers. On the contrary, facing the competition of many other enterprises reaping similar gains, the corporation may keep its own prices lower than it otherwise would. This means that customers pay prices that do not fully cover the rising costs of capital. Only gradually, when the inflation raises interest rates and corporations face higher interest charges on new loans, do business costs rise and ultimately the prices of goods. Thus, corporate customers are reaping gains at the expense of corporate creditors, gains that may find their way into additional consumption. Only a small fraction of the capital lost by creditors may be retained as productive capital by the corporation.

Capital Markets Disappear

Inflation destroys the capital markets. Surely, there are always debtors eager to borrow money at "low" interest rates, that is, at rates that do not fully compensate the lender for the anticipated inflation losses. But the number of creditors willing to lend their funds at such rates tends to shrink with progressing inflation. Instead of suffering losses, the would-be lenders may prefer to consume their funds, or invest them in durable goods that may rise in price rather than depreciate in purchasing power.

Thus, the capital market tends to wane and economic expansion is checked for lack of capital. In fact, there may not even be enough

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capital to *maintain* the apparatus of production if business should fail to earn sufficient profits to rebuild and replace the capital goods that were used in the production process.

In countries that are plagued by chronic inflation, as in Asia and South America, long-term capital markets have long ceased to exist. Consequently, new plants and enterprises requiring large investments of capital cannot be built, labor productivity cannot rise and living conditions are destined to remain at misery levels.

Inflation makes economic calculation nearly impossible, which invariably causes businessmen to overestimate their earnings and overpay their taxes. Both accounting convention and tax legislation permit businessmen to treat as costs only those costs of capital that were expended in the past. But economic action always aims at future provision of goods and services; the past is significant only as it provides the means for future action. The fact that a certain item of capital equipment cost $1 million five years ago is irrelevant for business decisions if it costs $2 million today. If only $1 million were set aside for its replacement the production process cannot continue. But tax accounting only depreciates past capital costs and thus during inflation understates present costs and overstates business earnings.

Earnings Overestimated, Taxes Overpaid

The overestimation of American corporate earnings in recent years runs into tens of billions of dollars. Capital intensive industries, especially, are badly affected by this delusion, leading to massive capital consumption. To illustrate the point, let's take a chemical company with capital facilities of one billion dollars earning 20 per cent before taxes, but after taxes only 10 per cent or $100 million per year. If the facilities need to be replaced on the average of every five years, our company will depreciate $200 million per year. Let us now assume that in a given year inflation raises the costs of the capital equipment by 25 per cent, which is a realistic assumption today. Our company needs $250 million for replacements this year and every year thereafter. If capital goods prices continue to rise at the 25 per cent rate, it will need $312 million in the following year, $391 million in the year thereafter, $488 million in the fourth year, and $610 million in the fifth year – altogether $2.051 billion in five years. But in order to accumulate this amount for mere capital replacement, in order to earn the extra billion dollars in

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five years, its profits after taxes would have to rise by $200 million per year, that is, from $100 million to $300 million, and its gross profits before taxes would have to soar from $200 million to $600 million. Only a 60 per cent gross return on capital could maintain its substance; anything less would lead to capital consumption.

Few companies are enjoying such profits today. Most businessmen are happy to earn their "normal profits" regardless of the rising costs of capital goods. They continue to calculate with capital costs of the distant past and thus arrive at earnings that are greatly overstated, and at overestimated tax liabilities that further reduce the meager returns. Only when specific replacements of capital goods are made, perhaps with the help of loan capital, do present costs appear on the company ledgers and depress the calculated earnings.

Few capital-intensive enterprises today are earning returns that fully cover the higher costs of capital. This is why capital spending by American business is declining year after year. Even a Commerce Department survey admits that projected spending in 1976 won't keep pace with the rise in capital-goods costs. The spending projection suggests a decline in "real" spending of about 5 per cent, which follows a decline of more than 10 per cent in 1975, the worst in 14 years. (Cf. *The Wall Street Journal,* Jan. 14, 1976, p. 3). The situation is even worse when we bear in mind that some of these capital expenditures are made by industries that cater to growing government consumption or are making mandated changes to meet the requirements of government regulations and controls. Such capital spending surely does not increase the stock of capital goods that are producing economic goods and services. They actually consume capital and thus lower the productivity of labor.

The businessman who, because of underdepreciation, overstates his earnings and overpays his taxes, may blithely consume his capital. After all, as goods prices rise he may allow himself to be impressed and deceived by his rising dollar profits and therefore indulge himself with higher outlays for consumption. While he is enjoying his "profits" he may actually be eating into his capital substance.

The Business Cycle

The boom and bust cycle, which is an inevitable consequence of inflation and credit expansion, is a powerful destroyer of capital. The administration that resorts to such policies must be charged with

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the responsibility for this capital destruction.

When the monetary authorities create new money and credit in order to stimulate economic activity they set in motion a causal chain of ominous events. Let us say they, as lenders of last resort, are financing a $75 billion Federal deficit. They either acquire Treasury obligations directly in exchange for newly created funds, or they extend new credits to banks who then purchase the Treasury obligations. No matter how it is done – directly or indirectly – the Treasury comes into possession of newly created purchasing power that enables it to buy more commodities and services. It thus withdraws real goods from other members of society, from consumers as well as businessmen. Everyone who is not a recipient of the newly created deficit funds must now tighten his belt as government is consuming a larger share of production.

When the monetary authorities engage in credit expansion in order to stimulate economic activity they destroy capital on a massive scale. The newly created funds, i.e. fiduciary credits, that are injected into the banking system tend to disarrange the whole production process. They lower interest rates and thereby misguide business in all its investment decisions. After all, the market rate of interest is an important guidepost for business, and an important item of cost that determines the profitability of activity. Whether a time-consuming project can be embarked upon largely depends on the rate of interest.

False Signals

When our monetary authorities inject fiduciary credits, interest rates tend to fall. That is, they falsely indicate the existence of savings that in reality were never made. Misguided by such low interest rates, businessmen may be led to embark upon investments that later will be disastrous. After all, the real savings are not available for a new round of expansion and modernization; the guidepost has been misplaced. It causes business to launch an economic boom amidst confusion and delusion. Many expensive projects are undertaken that later will prove to be costly malinvestments.

The mistakes become visible as soon as the prices of the factors of production, which are business costs, soar on account of the boom while consumers' goods prices fail to keep pace with the former. Profit margins are squeezed or turned into losses – powerful reminders of the mistakes that were made. Businessmen may then be forced to abandon their expansion

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projects for which there was no economic demand; many may fall into bankruptcy. Massive amounts of capital are written off – that is, are permanently lost. A society that indulges in such destructive policies must pay the price in the form of lower labor productivity, lower wage rates and a lower standard of living.

Government Regulations

It will never be possible to calculate the economic costs of government regulations. A few are visible, but most are hidden in the dimension of economic action that never took place on account of the government interference. The order that closes a factory may cost little in bureaucratic expense; even the capital losses to owners may be moderate. But the reduction in public well-being which the factory used to serve, the goods no longer produced, the wages no longer paid, the income no longer earned, the savings and investments that will never be made, these are incalculable real costs that may greatly surpass the visible losses.

Government intervention by law or decree may assume several forms: it may be directly prohibitive or restrictive as it forcibly prevents economic production. It may weaken competition through licenses and franchises, or even create cartels and monopolies. It may impose additional costs on the production process. The U.S. Environmental Agency, for instance, may want American industry to spend some $32 billion in order to reduce the occupational noise limit. And finally, the regulation may interfere with business management and efficient application of land, labor, and capital. All such controls and regulations tend to reduce economic productivity, depress wage rates, and lower our standard of living.

Capital is consumed when, for any reason, the capital goods expended in production are not replaced. If we consume more than we produce, we dissipate the productive wealth accumulated in the past. Or, even if our consumption should stay the same, but production falls below our consumption levels, we are eating into our substance.

In the United States we are attacking capital on both fronts: our political institutions are pressing continuously toward higher levels of consumption as most politicians are clamoring for ever greater government expenditures; and production is falling off because of costly government intervention.

The Environmental Decade

The 1970's are supposed to be the "environmental decade" – ten

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years devoted to cleaning and mending our environment. The laws and regulatory actions of the 1970-1975 period alone are estimated to cost industry some $300 billion in addition to the major costs the taxpayers will be forced to bear. All such costs are "unproductive," meaning that the expenditures consume business capital without generating new production and income. Production costs per unit of output are not lowered, but raised, which causes real incomes to decline. F. C. Olds, senior editor of *Power Engineering* magazine, estimates that present environmental protection laws are costing every American family $2,000 a year. (*Power Engineering,* September 1975, p. 38 *et seq.*) If such costs merely were to reduce our incomes they would not destroy capital substance. But the $300 billion which industry must spend is business capital that will never be used to produce economic goods.

According to a recent report of the U.S. Council on Environmental Quality, pollution control is a growth industry that has created roughly one million jobs during 1975. (*Chicago Tribune,* January 6, 1976, Section 2, p. 4) If this should be true, we cannot escape the conclusion that this new industry with one million workers is busily consuming the capital substance of the productive industries rendering economic services to consumers. It cannot be surprising then that while the former is prosperous and growing, the latter industries are lingering in stagnation and recession.

This is not to imply that environmental pollution is preferable to clean air and water. On the contrary, let us favor full allocation of the total costs of property to its owners. As the undiminished benefits of an economic good should accrue to its owner, so should the costs be borne by him. But rather than rely on government regulation and an army of bureaucrats, let us rely on the safeguards of contract and the jurisdiction by courts of law. And let us seek to reduce the sphere of public property which is the principal source of environmental pollution.

Regulatory Agencies

Government regulation dissipates capital directly through imposition of capital outlays, and indirectly through restrictions of productivity that reduce income, saving, and investment. The American cartels are cogent examples of the latter. Through compulsory government licensing and rate making, government agents control the railroad industry, the motor carriers, water carriers, freight

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forwarders, air carriers, power generation, and broadcasting. Furthermore, government is manipulating labor and management in order to achieve its political and economic objectives. The National Labor Relations Act of 1935 and 1947, the Fair Labor Standards Act of 1938, the Employment Act of 1946, the Occupational Safety and Health Act of 1970, the Comprehensive Employment and Training Act of 1973, all are designed to prevent the application of labor according to the efficiency dictates of the market. Extensive government control over agriculture is preventing this important industry from working efficiently for its world-wide markets. And finally, the recent government take-over of energy production and distribution places all industries in serious jeopardy.

It is the very objective of such controls to interfere with efficient economic production. After all, if we equate profitable production for the market with economic efficiency, then government interference with this production must necessarily be inefficient and costly. It is costly to consumers who pay more for fewer goods, and to producers who may suffer losses in income and capital. A small reduction in business income entails a large loss of capital. After all, it is the yield of capital that determines its market price; a $1 million reduction in income, for instance, may lower capital goods prices by $10 million. A regulation that completely idles a productive enterprise completely destroys its productive capital, or at least reduces it to the salvage value of its component parts.

Labor Unions

Capital can be formed only by saving, that is, a surplus of production over consumption. An enterprise that enjoys an excess of proceeds over costs earns a surplus, commonly called profit, some of which usually is plowed back into production. Profitable enterprises tend to grow; unprofitable ones must contract.

Labor unions owe their existence to the doctrines and notions of labor exploitation. They are pressure organizations of members who are afraid to stand alone in the economic world of competition. Through strikes and threats of strikes they aim to achieve one basic objective: to improve the lot of their members through higher pay and benefits, or through lower output and less work. In every intance, labor unions endeavor to raise the costs of production.

Productive business capital is consumed in nearly every phase of union activity. A strike may severely drain the working capital

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of an enterprise. After all, most business expenses continue although production is halted. Productive property may be damaged or even destroyed. And when the strike is finally settled, the costs of labor usually rise substantially. The hourly pay of union members as well as their fringe benefits, such as paid holidays, vacations, health and dental care, pension funds, and the like frequently double labor costs in just a few years. For the average General Motors hourly employee in the United States, the so-called fringes now come to $4,500 a year. (Remarks by Thomas A. Murphy, Chairman of General Motors Corporation before The Economic Club of New York, Nov. 12, 1975). But this is not all. The work rules to which the company must submit under the new contract may prove to be even more costly as management loses its abilty to manage labor efficiently. The seniority rule may prevent a more efficient younger worker from performing a task. The "bumping right" of a senior worker may even cause the younger man's dismissal. Management must helplessly watch the replacement of its best workers by senior union workers, the substitution of inefficient work rules for labor efficiency, or the application of unproductive methods and tools of production. And finally, the job discipline tends to suffer as union members may feel protected from managerial direction and supervision.

The demands and tactics of militant labor unions invariably reduce the expansion of profitable enterprises as business profits are turned into labor expenses rather than productive capital. Marginal enterprises that are burdened by new labor costs now suffer losses that dissipate business capital. And enterprises that were suffering losses even before the union extracted its coercive costs may be forced out of business. In each case, economic output is reduced and productive capital is consumed.

Capital Consumption Tends to Accelerate

Every day, one's economic condition either improves or deteriorates. It is unlikely that anyone's condition would remain unchanged, as income and consumption are independent continuous processes that rarely balance each other. Even if your savings and cash-holdings should stay the same day after day, you probably are suffering a decline in living conditions as your consumers' goods, such as your car, refrigerator and shoes, are wearing out. The same is true with business. Every day a business enterprise either accumulates

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capital through saving, or reduces it through overconsumption. In a prosperous society with high rates of productivity and income, many people are in a position to save and invest. After the most important needs are met, a part of income is left for productive improvements. On the other hand, in a poor country it is more difficult to save and invest. In India, which reports a per capita income of $98 per year, it is more difficult to save $50 than in the U.S. where individual incomes average some $6,000. In fact, we can easily make more productive improvements, that is, spend more money on new factories, stores, machines and equipment, than the average Hindu is earning. This fact, together with the institutional handicaps that cause some countries to be so poor in the first place, explains why the difference in living standards between various countries continues to widen.

As economic improvements may accelerate through ever higher rates of saving and investing, so may we see an accelerating process of capital consumption and economic decline. No matter what our incomes may be, if we consume more than we produce we are eating into our productive substance. And once we consume capital while stubbornly clinging to old levels of consumption to which we have grown accustomed, we descend at ever faster rates. The stockholder who liquidates some stock in order to supplement his dividends for living expenses faces lower income in the future. If, nevertheless, he maintains his living standard he will have to liquidate his holdings faster and faster until the last share is sold. Obviously he could halt his impoverishment at any time, or even restore his fortune, through suitable curtailment of his living expenses.

Changing the Body Politic

For a future-oriented, determined individual, it may be relatively easy to readjust his consumption to falling income. But for a society consisting of millions of voters who are bent on redistribution and consumption through the political apparatus, this readjustment may be rather difficult. If the public is indifferent or uninformed about the significance of productive capital, the political pressures for government benefits and services may grow when incomes are falling. The very forces that are debilitating productive capital through overconsumption are likely to oppose any reduction in consumption. They may move heaven and earth to maintain their spending levels which, after all, come from "social benefits and services" to which they believe

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they are morally and politically entitled. Thus, the process of dissipation once begun feeds on the public pressures for simple preservation of the economic way of life to which we have grown accustomed.

If declining productivity and incomes should finally cut into those benefits and services, the beneficiaries may rise in anger about the sudden "violation of their rights." There could be social disturbance and disruption of the production process, which would reduce output and income even further, which in turn would again aggravate the social situation – a vicious circle of frustration and decline!

But even without this particular social force of acceleration, we may consume productive capital at accelerating rates. Many people react to declining real incomes from employment by producing less. They may even blame their employers, those "greedy" and "ruthless" merchants and industrialists, whom the demagogues will be quick to condemn for the decline. Absenteeism, slowdowns, work stoppages, featherbedding, and other restrictive work practices may grow worse. But lower output on account of lower labor efficiency raises labor costs and dissipates business capital. Only greater output through harder, more efficient work can arrest the decline.

In Spite of It All

Facing such powerful restraints on his creative energy, why does man not just surrender? Why does he struggle against all such odds to preserve his material well-being instead of consuming it in the pleasures of the moment? Why, in spite of this massive capital consumption by our political institutions, do we continue to enjoy a standard of living that is the envy of the world?

It cannot be the nature of man that continues to guide us to high incomes and relative prosperity. For the vast majority of human beings throughout history have lingered in abject proverty and suffering. It cannot be a racial characteristic of the white man, for he, too, has lived with hunger and misery throughout most of his history, and millions still do today. It cannot be the natural resources at our disposal, for countries that are poverty-stricken may be rich in such natural resources. The answer must be sought in the moral antecedents to economic freedom and prosperity. Honesty, integrity, independence, self-reliance, respect for the rights of one's fellowmen and their property, the ethos of work and thrift, and genuine concern for tomorrow continue to live

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in the hearts and minds of millions of people. The moral values that gave birth to our political and economic order with its democratic institutions and the private property system in production are still alive and continue to guide many Americans. Attacked and wounded, shackled and mutilated, their individual enterprise system continues to deliver more goods, affords higher incomes and better living conditions than any other system now or ever before. And although many Americans no longer embrace its moral antecedents, they are naturally cautious in eradicating all remnants of such a system. While enjoying its rich fruits, they may question its various pillars, but are reluctant to bring them down all at once.

Thrift and Industry Bring Forth Economic Progress

To avoid gradual impoverishment, we must reverse this ominous trend toward the consumption of our substance. If we seek to improve our working and living conditions and to give a better economic life to our children and future generations, we must save and build now. We must curtail our appetites for present enjoyment and allocate a share of our earthly goods to production for the future.

No matter what a man's motives for saving may be, he not only serves himself but also benefits society. Even the miser who saves more than other people deem appropriate, clinging to his savings in growing cashholdings, renders a valuable social service. His act of saving allows a supply of goods that were produced to be available for further production activities. But most people who save part of their incomes either deposit their savings in banks and other thrift institutions, or directly purchase more factors of production. In each case, saving may directly be turned into capital accumulation. The farmer who builds a fence or barn or buys a tractor is creating capital that renders his labor more productive. The merchant who improves his store or enlarges his inventory is forming business capital. The oil company that builds a refinery or service station is creating capital goods that render human labor more productive. And the refinery worker who deposits his savings in his bank or credit union helps to create productive capital as some of their reserves are invested productively, yielding incomes on the investments.

A society that looks upon thrift and frugality as social virtues, that believes with Benjamin Franklin "if you know how to spend less than you get, you have the philosopher's stone," such a

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society cannot escape the rich rewards that come from capital formation. On the other hand, a society whose habits are not thrifty will soon be poverty-stricken.

Our economic well-being depends on our ability to master the world of production which depends on our power of work. Man must work, which is as certain as life and death. In order to earn more, he must produce more. And he can always work more in order to produce more, which gives him the means to create the capital for ever higher productivity in the future. Work is not a curse; it is the only means to sustain and improve human life. Work, hard work, and long hours of work are the parents of prosperity.

The Blessings of Work

A society that looks upon labor as a blessing that brings happiness and ennobles all those who labor, reaps rich rewards in economic prosperity and progress. After all, the greatest economic asset of any people is the determination and courage to work. On the other hand, a society that frowns upon work as a curse or man's device of exploitation is destined to be poor and wretched. As the man who lives in constant fear of exploitation and does not work for the love of work, but only for money, is likely to be poor and dejected, so is a society of such individuals likely to be plagued by poverty and torn by strife.

Man's thrift and industry yield rich fruits, even though his body politic indulges in profuseness and encourages idleness. In fact, when the political institutions embark upon the consumption of economic substance, it becomes all the more important for the individual to preserve his productive capital through greater thrift and industry. And when the amount of capital invested per head of the population begins to decline, with ever lower real wages and standards of living, the individual may endeavor to offset the social decline through rising personal productivity. Indeed, he may successfully swim against the stream as long as the current of decline does not surpass his own forward movement.

When individual thrift and industry decline, man's political institutions invariably reflect his changing aspirations. The government of profuse and idle men indulges in capital consumption and sanctions idleness. To reverse our ominous trend toward poverty and conflict, our political institutions must learn again to live within their present circumstances. For no society can be rich whose expenditures exceed its means.

All present policies that con-

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sume productive substance must be abandoned. Confiscatory taxes that prevent the formation of productive capital must be repealed. The deficit spending that consumes the peoples' savings must be halted immediately. The inflation that is destroying the life's savings of millions of thrifty Americans must be abhorred as a crime against economic well-being and social peace. The business cycle must be prevented through resort to sound and honest money. The countless government regulations that are impeding economic productivity and consuming business capital must be repealed and bureaucratic labor returned to productive employment. And finally, the legal immunities and privileges of labor unions must be abolished and labor disputes returned to the courts of law. In short, government must remove its numerous shackles on the creative energy of man.

How to Attract Capital

IDEAS ON LIBERTY

THERE IS NO REAL SHORTAGE of capital in the world, and I do not know of any major project which has been held up solely because of the lack of money. Capital is plentiful wherever it is "wanted and well treated." The real bottleneck in the development of the world is the shortage of human capital: people with the skill, training, and education intelligently to employ the world's resources.

The facts are that when political freedom and free enterprise spread, markets increase, and that the expansion of markets is only prevented through political motivation. The interest of American business in the expansion of a free enterprise system around the world as part of a free political system is based not only upon moral considerations, but on the hard fact that there is no market for consumer goods among slaves. The problem is not one of division whereby the static resources of a country will be reallocated by some planner's program, but it is a problem of addition and multiplication whereby we must set our minds to increase the production forces and to broaden the areas of freedom and trade.

WALTER B. WRISTON, May 1963

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Socialism as a Family Enterprise

YALE JAY LUBKIN

DEFENDERS OF SOCIALISM often win debating points on "From each according to his ability; to each according to his need" by claiming that the family works this way and that the nation is merely an extension of the family. Defenders of Liberty often reply with the observation that the family is based on love, and the nation is not, and the two are not comparable. Certainly, to cite an extreme example, I would sacrifice much for my children, but nothing at all for an Angela Davis. For that matter, I would not willingly sacrifice very much for anyone, including the President, the Pope and the Editor.

The family analogy is, however, much better than the critics of Socialism believe. In my family, after all, I am the one who determines what everyone's need is, and I am the one who determines what efforts are required of each of my seven children. I am a despot, in a very real sense. A benevolent despot, to be sure, guided mainly by love, but a despot nonetheless. If David wants a sports car, I am the one who decides that he does not "need" it. If Judith wants to stay up an extra hour to watch television, I am the one who decides that she does not "need" that. I decide that Sara has the ability to make her bed and help with the dishes, and that David has the ability to take care of irrigating the orange grove, and woe betide them if they do not perform ac-

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cording to my estimate of their ability.

As might be expected, there occasionally is rebellion in the ranks, which gets more and more serious with age. Adam, at six, may complain a little, and do his chores with much reluctance on occasion, unless I pay him with money that he can spend as he pleases, but rebellion is a way of life for David at seventeen. While I may not feel that David is sufficiently mature and capable to cope with the world, David feels that he is, and my choice in the matter is either to let him or to lock him up.

I can hardly fault David for his feelings, for they are exactly the same as mine. I resent being told by a Government flunky what I must plant and to whom I may sell it and for what price. I resent being forced to obtain the approval of numberless faceless functionaries to do what I want to do, and to be prevented from doing it by whim or stupidity or spite. I resent being liable to punishment for violation of any of thousands of regulations, most of which I have never even heard of and most of which I consider silly, oppressive, arbitrary or offensive. I resent having to pay taxes under threat of violence to support efforts which I disapprove and I resent having to reveal and explain to some clerk, with whom I normally would not even associate, the details of my affairs so that he may judge whether adequate funds have been extorted from me.

The comparison between Socialism and the family is better than the Socialist wants. The benevolent despot can only function with subservience, with children too small and too immature to know better. When the children become adults, they will no longer submit, and insist on running their own lives as they see fit.

What the Socialist really wants is not a family, but an Animal Farm. On a farm, the farmer determines exactly what each animal needs, and that is what the animal gets. He may love his horse, but the horse does not get to eat all the oats he wants. He may love his dogs, but they do not get sirloin.

The farmer also determines exactly what each animal's ability is — and enforces his decision. If the farmer decides that a hen should lay 300 eggs a year, either she lays 300 eggs, or she goes to the stewpot. No appeal. When the steer is fat enough, off to the butcher, and when the horse can no longer pull his weight, off to the knacker.

In the Socialist's dream of a Socialist paradise, guess who will be the farmer.

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The Business of Government

CLARENCE B. CARSON

IN JANUARY of the year of our Lord 1976, of the United States 200, and of the Constitution 187, President Gerald R. Ford proposed to Congress a budget for the fiscal year 1977. He proposed to spend $394 billion, to raise $351 billion in revenue, and to have a deficit for this coming year of $43 billion. Of the total to be spent, $177 billion is earmarked for what are called welfare programs. This amounts to just about 45% of the total budget. As of January 21, 1976, the national debt stood at $578 billion, and it had grown in a little over six months by the amount of $45 billion. The interest on the debt for fiscal year 1975 was $32.7 billion, and the estimated interest for 1976 is $37.7 billion.

The budget is composed of estimates as to what a vast assortment of government programs will cost in 1977. The programs range from school lunches for children to hospital care for veterans, from aid for fatherless children to subsidies for the United States Post Office, from pay for soldiers in the Army to salaries for bureaucrats in the Occupational Safety and Health Administration, and from support for research in entomology to payments for dentures for retired people.

There are several questions that should be asked of every item in this immense budget. If asked and

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answered with care, it is possible that the budget could be reduced to manageable dimensions. Here are some of them:

- 1. Is the program for which the appropriation is being requested constitutional?
- 2. What level of government should pay for and administer any given program? Is the program local in character? Is it peculiar to the needs and interests of a particular locale or region? Are there variations throughout the country which would make a national program disruptive?
- 3. Can the program be expected to achieve its object? Has experience shown that programs of this kind work as they are supposed to?
- 4. Who is the program expected to help?
- 5. Can the United States government [taxpayers] afford the program?
- 6. Is there some point at which the level of taxation establishes serfdom?
- 7. In what direction does this or any similar program take us? Is it socialism? Is it premised on "From each according to his ability; to each according to his need"? The answer to this question needs to be made in terms of the whole body of programs that are welfarist and interventionist in nature. A piecemeal examination of the programs will not provide the answer. The whole body of legislation needs to be seen in its tendency and direction.

These are questions that ought to be asked and answered for every item in the budget. The whole body of constitutional, legal, political, and economic thought ought to be brought to bear in answering them. They are mostly technical questions and, if they are answered, will probably be answered by experts. But there is a question, or order of questions, which precedes all of the above. It is a question not to be propounded to experts only but to all Americans in their capacity as citizens. It is a question not addressed primarily to either theory or experience; yet one which everyone is supposed to be able to answer. The question is this: *Is it right to authorize and spend money on this program?*

Some subordinate questions will throw this central question into relief. Of welfarist measures, we may ask: Is it right to take money from some portion of the population and give it to others? Of regulatory measures, we may ask: Is it right to force people to do these things against their wills? Of deficit financing, we may ask: Is it

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right to go into debt to provide those goods for the presumed beneficiary? Of inflation, we may ask: Is it right to reduce the value of the money now in circulation by increasing the supply? Of the national debt, we may ask: Is it right to continue to expand and expand the debt with no provision for retiring it?

As strange as it may appear to some of us, there are many people who have, in effect, answered these questions in the affirmative. They have not, of course, usually phrased the issues this way. They have, instead, talked and presumably thought in terms of the good they were supposed to be accomplishing with the spending. The moral questions they propounded would be phrased in some such fashion as this. Is it right that anyone in a wealthy country such as ours should have his needs unmet? Is it right, they have asked, that this industry or that endeavor go unregulated in what they charge and the quality they offer? As for the debt, they have said, that is no great problem since we owe it to ourselves, and the more sophisticated bluntly recommend increasing the money supply to "spur the economy."

But let us stay with the questions at the highest level, the level of what is right. To answer them, we need to remind ourselves what government is, and from that deduce what it may properly and rightly do. We need to keep in mind how government achieves whatever results it does. None of this tells us what is right, but we can apply our knowledge of right only with a clear view of the nature of government.

Instrument of Force

Government is that instrument which maintains itself by and *is authorized to use force.* It is not only authorized to use force but it also acts exclusively by the use of force. If there is no force entailed, an act ceases to be governmental, even though someone in government performs it. In short, the *sine qua non* of government is its reliance upon and authority to use force.

What functions are appropriate to government, then? To what ends may force be properly exercised? The Founders of these United States made a general summation of these in the Preamble to the Constitution: to "establish justice, insure domestic tranquility, provide for the common defense, promote the general welfare, and secure the blessings of liberty to ourselves and our posterity. . . ." It should be granted that there are many who can give assent to these general aims without seeing in them any limitations

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on government. This occurs, I suspect, because they do not generally think of them as intertwined but rather as separate and distinct functions. At any rate, let us examine a little closer into the proper functions of government as they are suggested by these statements.

The basic task of government is to keep the peace. Most of its functions are closely related to this job. Keeping the peace involves, most fundamentally, protecting peaceful men from attacks upon them by aggressors and trespassers. These offenders may be individuals or groups, domestic or foreign. In any case, a government is providing for the common defense and insuring domestic tranquility when it holds these at bay. Keeping the peace also involves dealing with those who have committed offenses, and settling disputes that arise between individuals and groups. In this fashion, then, government can properly act to establish justice. It can be seen, too, that these are objects to which force is appropriate. Force can be used against aggressors and to compel obedience to the verdict of the court.

The statement that government should promote the general welfare appears to us to raise questions rather than to answer them. This is so because we have been taught to misconstrue the phrase. We have been taught to believe that government may act to advance the well-being of some portion of the population, perhaps at the expense of another, and that this is somehow for the general welfare. But that cannot be: The general welfare is the *general* welfare, not the welfare of some part. The general welfare is the welfare of all, a welfare which no man or group of men can have more interest in, nor less, than all others. To maintain peace in a society promotes the general welfare – in the same fashion so does, to establish justice, to insure domestic tranquility, and to provide for the common defense. But, it may be objected, there are those who would disturb the peace. Just so, that is why we have government in the first place. But is the maintenance of peace in their interest? Of course it is.

In the Public Interest

There is another order of services that a government may provide that can be said to be for the general welfare. They are those services of general use and benefit whose costs cannot be readily or equitably divided among users. They consist of such things as fire protection, the providing of safety markers in waterways, the providing of information about the

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weather, and such like. It is proper, also, that government and its instruments of force and for administering justice be supported with tax money. The keeping of the peace being for the general welfare, it must follow that all those with means should contribute to it, whether they will or not.

Government is the right instrument, also, to secure the blessings of liberty to a people. It may see to it that peaceful men are not detained and that all such are permitted to exercise their faculties without restraint, so long as they do not injure others and that they exercise them on their own facilities or on those of others who have hired or invited them or in public places and at times appointed to the particular uses. Force, defensive force, can be employed so as to prevent the strong from oppressing the weak or anyone from interfering with the liberty of another.

In the performance of the above functions, government is essential to social existence. It is, as the traditional phrase has it, ordained of God. For government to do those things for which it is ordained and established there should be no question of the rightness of it. The question of right arises over welfare, interventionist, and fiscal policy. The answer lies in the critical area of justice and the contemporary confusion of justice and mercy. The Founders declared that one of the purposes of government was to establish justice. If that be accepted, the content of justice needs to be carefully examined.

Qualities of Justice

The most obvious thing we know about justice is that it is blind. Representations of justice show it blindfolded, and it is a matter of long-standing prescription that it should be. Justice – that ideal of it that has guided men in Western Civilization – cannot see. It cannot see whether those who come before it are black or white, rich or poor, farmers or industrial workers, old or young, men whose hearts have generally been pure or are as black as the Ace of Spades. Justice is concerned with but one thing: *To give each man his due.* To put it in economic terms, justice is concerned with seeing that each man gets what is his. To this end, justice must attend to the character (or nature) of acts and transactions, ignoring all else.

What is a man's due, or what is his? A man is due what has been promised him, and that is his which he has made for himself or has acquired from others by purchase or gift. In determining any question of ownership, justice has been done when it has been de-

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cided who made the object in question and whose it is, otherwise, by transfer from the original owner, and restitution has been made. Justice, of course, has to do also with seeing to it that those who have committed offenses – crimes – against the public order are penalized. Justice here attempts to mete out punishment in accord with the gravity of the offense.

Justice holds, roughly speaking, that he who does not work shall do without. He who does not earn his keep shall be deprived. Justice will not allow the excuse that a man was hungry, that his family was hungry, that he had been ill, or that for any other reason he may appropriate the property of another. True, men will say that before they will let their families go hungry they will steal. That is no matter, so long as they know it is stealing, and so long as it is clear that if they are caught taking what is another's they may be justly punished. In the same manner, justice requires that he who injures another in any fashion shall be made to pay. A people who attempt to establish justice have undertaken a formidable task.

Justice is blind; Mercy can see the helplessness of children, the plight of the aged, the ravages of disease, the suffering from deprivation, the discrimination because of color, the hard work that has not been rewarded with produce, the hard luck with which some are afflicted, the lame, the halt, and the blind. Mercy can distinguish between the deserving and undeserving of pity and of charity. The standard of Justice is desert; the standard of Mercy is need.

Shall Government Dispense Mercy — or Establish Justice?

There is no doubt that many of us stand in need of mercy from time to time and place to place. But there is a question whether government is the proper body to dispense mercy. If it is the business of government to establish justice, it cannot also be its task to be merciful. The two are incompatible. The question of whether justice or mercy shall be extended is an either-or proposition in particular instances. If government does justice, it must deny mercy; if it is merciful, it will tend to work injustice. This is so for government because force may be properly used to do justice, but mercy must be freely – not forcibly – offered else there will be injustice. Specifically, it is proper to use force to see that a man gets what is his. But mercy involves conveying upon a man that which is not his by right, that which he has not earned, that which is not his due, but which

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someone out of pity or charity wills that he shall have. For government to extend mercy in this manner means that it must take from someone who has and give to someone who had it not. In short, when government extends mercy it usually produces injustice.

Men of good will may agree that those who cannot help themselves are the proper objects of concern of those who can. It is the part of charity to render aid to such in their need. However, it does not follow that government is the proper instrument to provide such aid. Government aid is derived from taxes, and these are taken involuntarily from the taxpayers. Mercy is properly the prerogative of moral individuals, many of whom have ever shown themselves willing to help those in need when they have been left free to do so.

The questions posed at the outset of this discussion reduce themselves to one question: Do men have a *right to* what they possess as *property?* Let us pose them again with this question in mind. Is it right to take money from some portion of the population and give it to others? If men have a right to what they have produced, it is not, for if it can be taken from them to give to others they had no right to it in the first place. Is it right to force people to do these things (by regulation to use their efforts and property in ways they do not choose) against their wills? If what a producer or exchanger has is his by right, then it is his to do with as he sees fit, so long as he does no demonstrable injury to others. Is it right to reduce the value of the money now in circulation by increasing the supply? If there is a right to money, there is a concomitant right to it without having its value arbitrarily reduced. If not, there is no right to money, for its whole value may be reduced to naught by government action. Is it right to continue to expand and expand the debt with no provision for retiring it? This is a complicated question, for the main means of raising the money is by way of increasing the money supply. There are two prongs to the answer. One is that it is not right for government to take away from property by increasing the money supply. The other is that the future holdings of property are reduced in value by the amount of them that must be taken away to pay the interest and the debt.

James Madison answered the questions this way in 1792:

> Government is instituted to protect property of every sort. . . . This being the end of government, that alone is a *just* government which *impartially* secures to every man, whatever is his own.

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Even though property is the key, it is necessary to discuss these matters in the context of the proper role or business of government. This is so because government – any government – costs money to operate. These costs become, of necessity, a charge against property. If government is "instituted to protect property," as James Madison said, it must necessarily follow that its costs must be kept down to a nominal level in order to perform its function. However, when government begins taking property for anything other than its protective function it becomes an *invader* of property rather than a *protector* of it. Rather than a protector of right it becomes itself a wrongdoer.

The extent of government activity today is new, but the tendency of government to become wrongdoer is old. These questions of right were also answered, and answered vigorously at the time of its formation and the early years of the Republic. Americans experienced the wrongdoing of government depreciating the paper money by printing more and more of it during the War for Independence. Josiah Quincy wrote to George Washington:

I am firmly of the opinion, and think it entirely defensible that there never was a paper pound, a paper dollar, or a paper promise of any kind, that ever yet obtained a general currency, but by force or fraud, generally by both. That the army has been grossly cheated; that creditors have been infamously defrauded; that the widows and fatherless have been oppressively wronged and beggared; that the gray hairs of the aged and innocent, for want of their just dues have gone down with sorrow to their graves, in consequence of our disgraceful depreciated paper currency. . . .[1]

On the matter of public credit and indebtedness, George Washington had this to say in his Farewell Address:

As a very important source of strength and security, cherish public credit. One method of preserving it is to use it as sparingly as possible, avoiding occasions of expense . . . ; avoiding likewise the accumulation of debt, not only by shunning occasions of expense, but by vigorous exertions in the time of peace to discharge the debts which unavoidable wars have occasioned, not ungenerously throwing upon posterity the burthen which we ourselves ought to bear. . . .[2]

Thomas Jefferson, in his own inimitable way, put the business

[1] Arthur S. Bolles, *The Financial History of the United States*, I (New York: D. Appleton, 1896, 4th ed.), p. 208.

[2] Henry S. Commager, ed., *Documents of American History*, I (New York: Appleton-Century-Crofts, 1963), 173.

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of government clearly and succinctly in his First Inaugural Address:

> . . . Still one thing more, fellow citizens – a wise and frugal Government, which shall restrain men from injuring one another, shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labor the bread it has earned. This is the sum of good government. . . .[3]

Martin Van Buren stated similar principles, though in some greater detail:

> All communities are apt to look to government for too much. Even in our own country, where its powers and duties are so strictly limited, we are prone to do so. . . . But this ought not to be. The framers of our excellent Constitution and the people who approved it with calm and sagacious deliberation acted at the time on a sounder principle. They wisely judged that the less government interferes with private pursuits the better for the general prosperity. It is not its legitimate object to make men rich or to repair by direct grants of money or legislation in favor of particular pursuits, losses not incurred in the public service. This would be substantially to use the property of some for the benefit of others. But its real duty – that duty the performance of which makes a good government the most precious of human blessings – is to enact and enforce a system of general laws commensurate with, but not exceeding, the objects of its establishment, and to leave every citizen and every interest to reap under its benign protection the rewards of virtue, industry, and prudence.[4]

As things have been going in these United States, it is not difficult to make some predictions about the budget for 1977. It is most unlikely that spending will be kept within the extensive bounds of $394.2 billion. There are all those programs already authorized which cost more and more each year. Then, Congress is apt to tack on yet more programs which will add to the expense of government. Already, predictions have been made that the deficit will not be kept to $43.1 billion but may well continue to balloon at the current rate.

There are many indications that the spenders still have the momentum behind them. Even if they did not at this moment, authorizations made in times past carry their own momentum. And, regardless of the feeling in the Congress, the vast Federal bureaucracy stands ready with its publicity apparatus to continue present

[3] *Ibid.*, p. 188.

[4] Henry S. Commager, ed., *Living Ideas in America* (New York: Harper and Bros., 1951), pp. 323-24.

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programs and present justifications for new spending. It will not do to try to stop at the present level; it is necessary to begin to remove programs already established in order to stem the tide of rising expenditures.

There is, I suspect, only one level of looking at the matter at which there is any hope of reversal and a return to a modicum of fiscal sanity. It is at the level of what is right. So long as there is general acceptance of taxing, inflating, borrowing, and spending what the government does not have upon welfare, subsidies, and regulation, these things will continue. So long as people generally believe that it is right to take from some and give to others, that government should regulate and control business, that deficit financing is right and proper, that it is all right to reduce the value of the money in circulation by increasing the amount of it, and the debt does not have to be repaid, just as long these things will continue.

When and if it is understood that it is wrong for government to act in this way, then, and only then, is it likely that we will reverse our direction. Then, too, arguments about the constitutionality of programs, results of past programs, and so forth, will become powerful adjuncts in support of right.

IDEAS ON LIBERTY

Providential Agency

NO PEOPLE can be bound to acknowledge and adore the Invisible Hand which conducts the affairs of men more than those of the United States. Every step by which they have advanced to the character of an independent nation seems to have been distinguished by some token of providential agency; and in the important revolution just accomplished in the system of their united government the tranquil deliberations and voluntary consent of so many distinct communities from which the event has resulted can not be compared with the means by which most governments have been established without some return of pious gratitude, along with an humble anticipation of the future blessings which the past seems to presage.

GEORGE WASHINGTON, *First Inaugural Address*, 1789

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THE BIGGEST CON:

How the Government Is Fleecing You

THE GREAT VIRTUE of Irwin A. Schiff's *The Biggest Con: How the Government Is Fleecing You* (Arlington House, $9.95), is, as I have already suggested in a foreword to the book, the author's ability to put it all together to show how the "critical mass" of five trillion – yes, five trillion – in government debt must end either in repudiation or a ruinous inflation. This is tough medicine, and no politician is going to swallow it immediately, particularly in an election year. But Mr. Schiff is inexorable – he simply adds things together to show how a lot of welfarist measures which looked good individually have combined to destroy the possibility of paying off the whole in honorable and non-inflated coin.

To begin, we don't have money any more; we have what Mr. Schiff calls unmoney. Neither the Treasury nor the Federal Reserve system recognizes a duty to redeem any note or government bond in anything more than successive issues of new I.O.U.'s. What the government chooses to call its national debt is bad enough; when Mr. Schiff was writing it came to some $540 billion (the June 30, 1975, figure). But this is just the tip of the iceberg. When you add

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in the Social Security payments that the government is obligated to make good out of future income (it has already squandered the payments of the past forty years by its refusal to fund the debt in anything more than I.O.U.'s), some $2.1 trillion more must be raised, according to a government admission made in a footnote. (Does anyone really believe that we can tax at that rate even in annual increments without breaking the middle class as inflation adds more trillions to the $2.1 trillion as of 1975?)

Aside from Social Security, the government has other obligations reckoned in the trillions. There are annuities, student loan guarantees (an incredible $1.9 billion), crop guarantees, veterans' benefits, and so on. The big figures and the little figures combine in a total debt (funded, unfunded and contingent) of $4.3 trillion. It will be $5 trillion, including the "regular" debt, as admitted by Congress and Jerry Ford, before the year has ended.

The Uneconomists

There is a lot more to Mr. Schiff's book than a recital of our overwhelming debt problems. Having coined the term unmoney, Mr. Schiff goes on to speak of our uneconomists. (The Keynesians, of course.) We do have a few legitimate economists – Mr. Schiff is high in his praise for Henry Hazlitt, Hayek, the late Ludwig von Mises, and he voices a limited approval of Milton Friedman and the Chicago School. The discussion of the uneconomists is hilarious. There is a Schiff Index of Inflationary Generators, SIIG-1, SIIG-2 and so on to SIIG-17. Mr. Schiff got tired of the uneconomists' penchant for redundancy, for there is actually no difference between SIIG-1 ("ease credit") and SIIG-4 ("expand credit") or even SIIG-6 ("ease monetary controls"). He recommends SIIGomastics as a game for the whole family (just tune in on Heller and Galbraith, or read the latest financial story in the news weeklies).

Especially brilliant is Mr. Schiff's demolition of GNP, or the Gross National Product, which can with equal logic be called Gross National Cost. Mr. Schiff finds it ridiculous that all dollar payment figures to individuals and corporations should be accepted without question as "wealth." Suppose, he says, a tidal wave were to demolish the Florida coast from Miami to Boca Raton. Let's say the cost of the destruction comes to $2 billion. It should be subtracted from the GNP, but it isn't. On the other hand, the cost of cleaning up the debris – say it's $300 million – would be added into GNP. Does it

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make sense that disasters such as tidal waves can be figured as wealth-creating when people step in to sort out useless junk, at the taxpayers' expense?

The stupidities of GNP are endless. A healthy person adds nothing to GNP, but sick people do. The sicker the population is, the greater will be the percentage of GNP spent on medical treatment. The GNP of wheat at $2 a bushel can be less than the GNP at $3 a bushel. The more wheat we have, the poorer in GNP terms we are likely to be. Since food is real wealth, this makes no sense. Abundance has the tendency, says Mr. Schiff, to develop lower GNP figures than scarcity.

The unions and the politicians, with their insistence on a minimum wage law, have created a ghetto problem and a teen-age problem. Blacks without skills can't get jobs, for if employers were to pay them the official hourly minimum marginal companies would soon go broke. The minimum wage makes it impossible for the U.S. to have a good apprentice system. We will pay dearly for this one fine day when we wake up to the fact that we have no young tool and die workers.

Citizens Under Compulsion

I would like, since I can't phrase it better, to quote the penultimate paragraph of my introduction to Mr. Schiff's "blockbuster" of a book. "In a grand peroration," I wrote, "Mr. Schiff accuses our Federal government of compelling citizens to participate in a chain letter (social security); of illegally shifting wealth through inflation; of hiding the true extent of the National Debt; of saddling a lower standard of living on people by the destructive burdens it imposes; and of using the Federal Reserve to force what amounts to counterfeit money on the banks. The citizen is required to swear to things on his tax return that no two people can interpret the same way. We are, so Mr. Schiff suggests, contributing to our own destruction by paying taxes to a government that engages in so many unlawful and criminal activities that it makes the Mafia look lily-white by comparison. This poses a nice question for the taxpayer: if you cooperate with a thief, doesn't that make yourself the perpetrator of an unlawful act?"

Strangely enough, Mr. Schiff remains an optimist. Does he really believe we will change our Social Security law to put it on a welfare test basis when Ronald Reagan can't even talk about providing for alternative voluntary old-age insurance? As Milt Gross used to say, "Dun't esk."

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▶ AMERICA'S EMERGING FASCIST ECONOMY by Charlotte Twight. (New Rochelle, N. Y.: Arlington House, 1975), 314 pages, $12.95.

Reviewed by Hans Sennholz

TOTALITARIAN REGIMES, whether they are fascist or communist, entail an extreme centralization of power from which no individual can hide. Private property in production, which is the characteristic of a capitalist order, is replaced by public property that is managed by an omnipotent, omnipresent state. Communism and fascism are sister systems that spring from identical intellectual and moral roots, and apply similar methods and policies to achieve their objectives.

And yet, in spite of their closely related basic natures, the champions of both endeavor to emphasize the differences. "We are diametrically opposed to fascism," say the communists, and "We are the bulwark against communism," proclaim the fascists. In reality, as twins, they are jealous rivals who at every opportunity confront each other. Their wars are fratricidal wars waged without mercy or compassion.

Although in philosophy, morality, and in objectives they are identical twins, they differ in two characteristics that make them distinguishable. Communism seeks to poison the hearts and minds of all peoples and races. It aims to conquer the world with its poisonous potion. Fascism is a national disease that tends to infect national states. Italian Fascism was singularly Italian, German Nazism was basically German, as American Fascism is contagious to Americans only. This limitation in the base of fascism tends to make communism the more dangerous disease to which all of mankind may succumb.

The two also differ in the legal form in which they exert central control over the means of production. The communists assume outright ownership through law or constitution. The fascists content themselves with governmnt controls over productive property. They do not legally expropriate the individual owners, believing that government controls are more efficient than direct bureaucratic management. Capitalism, the antithesis of both, is the private property order in which individual owners have the sole power to use their economic goods.

Charlotte Twight's *America's Emerging Fascist Economy* is a brilliant analysis of the economic policies that are turning the U.S. into a fascist state. As an attorney and a member of the Washington State Bar Association, Mrs.

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Twight presents a formidable indictment against numerous U.S. statutes and judicial decisions that are building a fascist foundation for the modern American system. Her analysis of government control over money and banking, for instance, is incisive and convincing as she reveals the objectives of such control as well as its many ominous consequences. The same can be said about her discussion of the American cartels, government control over product quality, the growth of the President's economic power, government dominion over labor, agriculture, foreign trade, and the government takeover of the energy industry and many American railroads.

And yet, her admirable work is seriously flawed by her economic limitations that involve her in bad ambiguities and awkward conclusions. Her inability to distinguish between the economic and juristic concepts of property leads her to associate fascism and capitalism. She actually concludes that collectivism "may adopt socialism, communism, or capitalism as its nominal economic form." (p. 15) According to Twight, "Fascism is unique among collectivist systems in selecting capitalism as its nominal economic mate, but capitalism is turned inside out in this unlikely union." (p. 16) Or, "fascism espouses capitalism except where its totalitarian political hierarchy dictates otherwise." (p. 17) And although she concludes that fascism embraces "a bogus capitalism" she defines, in a large-print section heading, fascism's philosophic core as *capitalistic collectivism.*

Her eyes are glued on the legal concept of property and the legal title to property, which is totally irrelevant for the economic point of view. It matters only who has the power to use an economic good — the government or the individual. Fascism, like communism, gives government total control over the means of production. The fact that some people may hold on to a legal document, a deed, while they are hurrying to obey government owners, may be interesting psychologically, but does not change the economic consequences of government control.

Charlotte Twight's "capitalistic collectivism" can be likened to such illogical concepts as "religious atheism," "evil morality," or "paternal motherhood." But while she succumbs to such ambiguities she does great harm to capitalism, her very own system. Today capitalism is accused of nearly every vice of which the human heart is capable — to exploit and gouge, rob and steal, impoverish and starve, deceive and prostitute, and on and on. And now comes Mrs. Twight

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telling us that capitalism can be mated to fascism. As attorney for the defense of capitalism, she is losing her case.

▸ ONE NATION UNDER GOD by Rus Walton (Third Century Publishers, Washington, D.C., 1975) 311 pp., $3.95

Reviewed by Robert Wren

IN A COMPILATION of facts, figures, quotes and succinct statements, journalist Rus Walton has presented us with an excellent account of the religious dimension of the American Republic. He discusses such subjects as limitation of government, freedom, taxes, the family, education, abortion, the "Equal Rights" Amendment, economics, charity and inflation.

Mr. Walton argues that the United States was founded as a Republic, not a Democracy. He points out that if we would retain the freedom responsible for our great prosperity, we must return to the limited government philosophy of our Founders. And he adds, "Freedom is not simply a matter of rights, it is also a matter of responsibilities."

Mr. Walton correctly defines inflation as an increase in the supply of money and sets forth the correctives: limit government, cut spending, balance the budget.

Opposing the common humanistic thinking of today, Mr. Walton convincingly redirects us to Biblical and God-oriented solutions for today's problems. He confronts us with a choice: "One nation under God or one superstate under Caesar." An excellent source of ammunition against Socialism, Communism, atheism and the Welfare State!

▸ THE NEW AMERICAN IDEOLOGY by George C. Lodge (New York City: Alfred A. Knopf, 1975) 350 pp., $12.50.

Reviewed by Melvin D. Barger

MANY LIBERTARIANS insist that America's "mixed economy" is an unstable hodgepodge, a sort of halfway house on the road to the Total State and the extinction of personal liberty. A number of politicians and corporate executives disagree, believing that the mixture of government intervention and private business brings the best of both worlds and provides immunity from further socialism. Unfortunately for proponents of the latter viewpoint, the mixed economy has tilted increasingly toward more government intervention, inviting the question: "Where

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will it all end and what's in store for us?"

In this disturbing new book, Harvard Business School professor George C. Lodge obligingly supplies an answer, but libertarians won't like it. He outlines an "ideology" for the brave new world that America is in the process of becoming. Although he carefully avoids categorizing the new system, it obviously has a thick cluster of socialist roots and borrows freely from collectivist thinkers, including sociologist Karl Mannheim. The form of the title and the tone of the book also recall Galbraith's *The New Industrial State,* although the author parts company with Galbraith's socialism on certain points.

Lodge, a member of the distinguished Boston family, argues that we are in a painful transition phase in our social, political, and economic relationships. We are abandoning the traditional American ideology associated with John Locke, and developing a new one that has already taken root: individualism is giving way to a system called communitarianism; property rights are yielding to rights of community membership; competition to satisfy consumer desires is losing ground to "planning for community needs"; the idea of the limited state is being replaced by the state as the planner; and scientific specialization must be succeeded by a holistic organization of knowledge.

Lodge apparently believes that the Lockean notion of individualism was a wrong path even for eighteenth century America, let alone the present modern state. He calls it an aberration on at least two occasions and also a "blip." He is clearly more sympathetic toward Rousseau's communitarian idea of the General Will, which would be accomplished by "bringing all particular wills into conformity with it" and with virtue being defined as "nothing more than this conformity of the particular wills with the General Will."

Lodge defines individualism as the atomistic notion that a community is no more than the sum of the individuals in it, with fulfillment an essentially lonely struggle in what amounts to a wilderness where the fit survive – and where, if you do not survive, you are somehow unfit. Individualism is related to equality, or "equal opportunity," and the idea of contract that ties individuals together as buyers and sellers. Individualism, he explains, has evolved into interest group pluralism as the preferred means of directing society (unions, trade associations, special interest groups, etc.).

Communitarianism, on the other

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hand, is a system that makes the community more than the sum of its individuals. People get their fulfillment through participating in communitarian activities, through identifying with their community; consensus, rather than contract, is the unifying element. Lodge claims that both corporations and unions have eroded the old idea of individualism and induced the new communitarianism though still clinging to the Lockean ideology. Lodge's best example of a communitarian society is Japan; he carefully avoids comment on Great Britain.

But what if individuals do not want to find fulfillment in this communitarian wave of the future? Lodge's answer seems to be that "we have to re-educate American youth to the fact that individual fulfillment comes about as the result of participating in an organic social process." Opponents, of course, would call this blatant indoctrination and would also note that there are vast differences between voluntary and compulsory communitarianism. Lodge evidently likes the compulsory kind, because he intends to have the communitarian way imposed on us by closing off other options. For example, community needs should take precedence over consumers' desires as a means of allocating goods and services, property rights are to be further diluted in favor of group membership rights (and virtually eliminated in the case of the corporation), and the state is to become the national planner; indeed, the international planner if all goes well.

Why are we having such difficulty reaching Lodge's earthly millennium? The hang-up, for Lodge, is John Locke and his archaic ideology. Almost everybody who is involved in American business and government suffers to some degree from the old Lockean ideas about individualism, property rights, the Protestant ethic, the danger of Big Government, and so on. Lodge believes that even union leaders and liberal politicians such as Senator George McGovern are handicapped by this "ideological schizophrenia."

The book is obviously addressed, however, to the executives and managers of America's troubled corporations. Acting both as reporter and advocate, Lodge is telling them that the old order of their cherished beliefs is dying, and they can help bury it. The corporation, deriving its authority and legitimacy from the old Lockean ideology, is in limbo and now needs a new basis for its legitimacy. The message is clear: In order to make the transition to the new system as painless as possible, corporations should seek legiti-

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macy in the new ideology by becoming willing handmaidens of the state, with the latter always as the senior partner. There is an implicit warning that terms for the corporation may become less favorable if it delays in seeking this new legitimation. Nor is there any way to avoid these conditions, since the new ideology is already in motion and cannot be reversed. The corporation can save itself – and some of its managers can save their jobs and salaries – by indenturing the organization to the new system and to the state as planner.

To his credit, Lodge describes with great accuracy the present difficulties of the large corporation and its powerlessness in coping with the pressures around it. It's to his discredit, however, that he fails to identify the "mixed economy" syndrome as a likely cause of the corporation's, and the nation's woes. In addition, he completely ignores the role of the Lockean idea in advancing human freedom, human dignity, and, yes, human rights. Far from repudiating Locke, as he does, we should be studying our abandoned road and discovering where we took a wrong turning.

We should also give the professor a failing grade for his hopeless naivete in believing that his total state will not develop into the totalitarian state. Here and there, he admits of such dangers, but nowhere does he offer mechanisms and ideas that can effectively keep the state from becoming an oppressor. Least of all does he explain who the planners will be or say whose plans will prevail in the new super-state. If experience is any guide, the coercive power of the state will almost certainly be used arbitrarily once it has been consolidated by the new American ideology.

The book is reviewed for libertarian readers because it is, in effect, a statist manifesto that is likely to have considerable influence in the business community. Its appearance at this troubled time is another reminder, if we needed it, that the world is full of well-meaning and sometimes gifted individuals who always seem to know the best way to manage and control other people.

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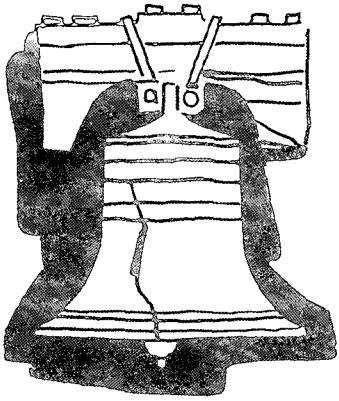

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